

Building futures

Fall 2003

Viewpoint

Taking Board deliberations to college campuses

During September, I was pleased to take part in a new initiative that will periodically take NJFEA's Board to university and college campuses around the State for its regular meetings.

To kick off this initiative, our first campus meeting took place last month at The College of New Jersey (TCNJ) in Ewing. Following the meeting's conclusion, TCNJ representatives provided a walking tour of the campus which gave our members and staff a firsthand look at the grounds and buildings and an appreciation of their history. We saw the facilities that NJFEA has helped finance over the last 30 years, and gained insight into the College's future development plans.

As an engineer, I found the meeting at TCNJ to be both informative and gratifying. As we walked through the campus past students rushing to and from classes, it was interesting to learn about campus facilities built decades ago, to recognize new trends in architecture aiming to accommodate the needs of today's generation of students, and to see new facilities under construction – many of which NJFEA has helped finance.

As this new initiative takes shape, campus walking tours will be an integral part of the agenda as we push to broaden our understanding of the physical plants of the institutions we serve and their development plans for the future.

NJFEA's new on-campus board meeting initiative has three important goals:

- To expand NJFEA's knowledge of New Jersey's college and university campus facilities, and increase our understanding of future development plans.

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Robert Medina

Governor announces ahead-of-schedule progress on dorm sprinkler installations

NJFEA sells last dorm safety bonds

In September, Governor McGreevey announced that educational institutions in the State were ahead of schedule on installing sprinkler systems in dormitories as required by the Dormitory Safety Trust Fund Act (the "Act"). To help pay for these fire suppression systems, NJFEA sold the final bond issue under the program on October 2nd to fund low and zero interest loans to eligible institutions.

Announcing that the statewide completion rate was 90%, the Governor said, "Tragically, the Seton Hall dorm fire was a wake-up call to New Jersey Universities – we must ensure that our dorms have sprinkler systems to protect our children." He noted that, "As thousands of students return to school this semester, I am pleased that the installation of sprinkler systems is well ahead of schedule. These efforts will make our institutions of higher education safer places to live and learn."

The Act requires the installation of sprinkler systems within 4 years, in bedrooms of residence halls and dormitories at 47 colleges, universities, secondary boarding schools and military schools throughout New Jersey. Sprinkler projects were to have been 75% complete by July 15, 2003, which marked the end of the third year of compliance with the Act's mandate.

According to completion percentages

compiled by the Department of Community Affairs, 35 institutions are 100% completely installed with fire suppression systems, while an additional 8 have met or exceeded the July 15th requirement.

NJFEA is authorized under the Act to issue up to \$ 90 million in state-backed bonds to fund low or zero interest loans to institutions to help defray the cost of sprinkler installation projects. In 2001, NJFEA sold \$ 75 million for this purpose and sold its final \$ 5 million under the program on October 2nd. Referring to the State's subsidy of interest costs on NJFEA's Dorm

Safety Bonds, the Governor noted that, "State support has been a critical component of this program. In meeting our funding commitment to institutions...we have ensured that cost is not a barrier to greater safety and responsibility."

As NJFEA closed its final transaction under the Dorm Safety program, Executive Director Roger Anderson remarked, "We will always remember the Seton Hall fire with sadness." Mr. Anderson continued, "NJFEA is gratified however, that we were able to contribute to the success of this program and its mandate for a higher standard of dormitory safety. We hope that similar tragedies will be avoided in the future as a result of this program."

"I am pleased that the installation of sprinkler systems is well ahead of schedule. These efforts will make our institutions of higher education safer places to live and learn."

— Gov. James L. McGreevey



James E. McGreevey
Governor

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Building Futures is a publication of the New Jersey Educational Facilities Authority. For further information about the NJFEA and its programs, please contact the NJFEA at 101 College Road East, Princeton, NJ 08540 by phone at 609.987.0880 or by email at ssstitt@njefa.com.

BOARD CALENDAR

November 20, 2003
December 17, 2003
January 28, 2004
February 25, 2004
March 24, 2004
April 28, 2004
May 26, 2004 (Annual Meeting)

Financial market education is important to our success

by Roger L. Anderson
NJFEA Executive Director

It is central to the Authority's mission to add value to each of its transactions. To this end, we help each client through not just the deal at hand, but also through planning for the next deal or series of deals.

The financial markets are constantly changing, and the pace of innovation is rapid. One of the advantages of participating in an over-the-counter market is that the market can react quickly to changing conditions. This advantage is also a challenge, because both the Authority and each institution must be prepared to evaluate new opportunities and new market conditions within the context of the institution's financial condition and risk management policy.


We have therefore undertaken a series of seminars to help our clients understand recent developments in the financial markets and be better prepared to participate in them. The fastest growing segment of the financial markets, and perhaps the least understood, is the derivatives market. Therefore, we called the second seminar in our series, "Derivatives 301: Front & Back Office Management". The seminar, held in May, covered a broad range of subjects, from what derivatives are to risk management, from legal and accounting issues associated with derivatives to how to introduce new financial tools to a Board of Trustees.

Our thanks to Princeton University, which

hosted the conference, and to all the very able participants for their help in both planning and presenting the conference. We also offer special gratitude to State Treasurer John McCormac for his participation as the keynote speaker and for his strong support of the work of NJFEA.

Like any good mid-level course, Derivatives 301 asked more questions than it answered. Our goal was to help institutions begin their derivatives education process, which fortunately becomes the risk management process. Derivatives education is a long process, and it involves several people, from the President and the Board to the financial professionals, the accountants and the lawyers.

In furtherance of this process, we are planning "Derivatives 302" to be held next spring. Our plan is to build on the conceptual base of the first seminar and take a closer, quantitative look at derivatives.

The Authority is honored to help New Jersey's colleges and universities invest in their world-class future. 



Roger L. Anderson

Board deliberations


Continued from page 1

- To showcase the construction and facilities undertaken with funds made available through NJFEA financing.
- To provide our college and university clients with convenient opportunities to show us how we can help them meet their future needs and goals.

NJFEA's next on-campus meetings are scheduled to be held at Drew University on November 20 and at New Jersey City University in March 2004. My fellow Board members and I look forward to those meetings and are grateful to Barbara Cannon, our new Deputy Executive Direc-

tor, for her efforts in planning and implementing this program.

The Board and staff are all proud of the work being done by NJFEA, our public and private colleges and universities, the Commission on Higher Education, and Gov. McGreevey and his administration to make New Jersey a premiere environment for higher education. It was gratifying to visit one of the campuses in which our combined actions have had such a positive impact.

If you haven't visited any of our State's campuses recently, take a trip soon. You'll be impressed. 

A strange summer for the Municipal Bond Market

By Mary Lyons
Capital Financial Advisors, Inc.

This past summer, particularly the month of July, marked an unusual episode in the chronicles of municipal bond finance. Records were set for market volume, interest rate volatility and interest rate escalation, keeping both issuers and investors on their toes.

July's \$28.5 billion of municipal bonds issued was the largest amount of debt ever sold in July according to figures released by Thompson Financial. 1,021 issues were sold, representing a 6.5% increase over July of 2002 which held the previous record. Many issuers were encouraged by the low borrowing rates which held firm through June, issuing refunding bonds at a level 36.7% higher than the previous July. New-money issues were slightly down from the prior year.

Volatility, the fluctuating nature or instability of rates, was unprecedented for municipal bonds, which normally move more slowly than US Treasuries. For the month of July, average volatility for municipal yields was 12 basis points per day. This volatility was decidedly upward. Yields on 10 Year, AAA General Obligation bonds rose by 73 basis points between June 17th and July 28th. According to the Bond Buyer, this dramatic increase has histori-

cally only been surpassed by the 160 basis point increase between December 1981 and January 1982 with the occurrence of the Washington Public Power Supply System bond default.

The events responsible for this remarkable rate movement were threefold. First, Federal Reserve action was viewed as particularly restrained by investors. This was evidenced by a modest 25 basis point Fed funds rate cut in mid-June and Greenspan's comments before Congress in mid-July with regard to Federal Reserve reluctance to take extraordinary steps to influence longer term rates.

Secondly, economic data released during this time period indicated some improvement in the economy, notably the initial 2nd Quarter Gross Domestic Product growth estimated at 2.4%. Finally, in mid-July, there was strong pressure on both US Treasury and municipal bonds rates from the mortgage markets which, due to rate increases and a decline in home mortgage refinancings, experienced a tremendous loss in liquidity for mortgage backed securities.

August, a traditionally slow month for the municipal bond market, seemed particularly quiet after such an explosive July. Volume dropped considerably with the 30 day supply at \$2.6 billion as of 8/18 versus the \$ 9.15 billion visible on 7/21. Volatility also settled down with the average move-

ment for the AAA General Obligation bond index at 3.5 basis points per day from the end of July through mid-August.

Economic data releases in early August describing muted growth, continued concerns about labor market frailty, and weak retail sales data have contributed to a 25 basis point decline in the AAA General Obligation Bond index since the beginning of September.

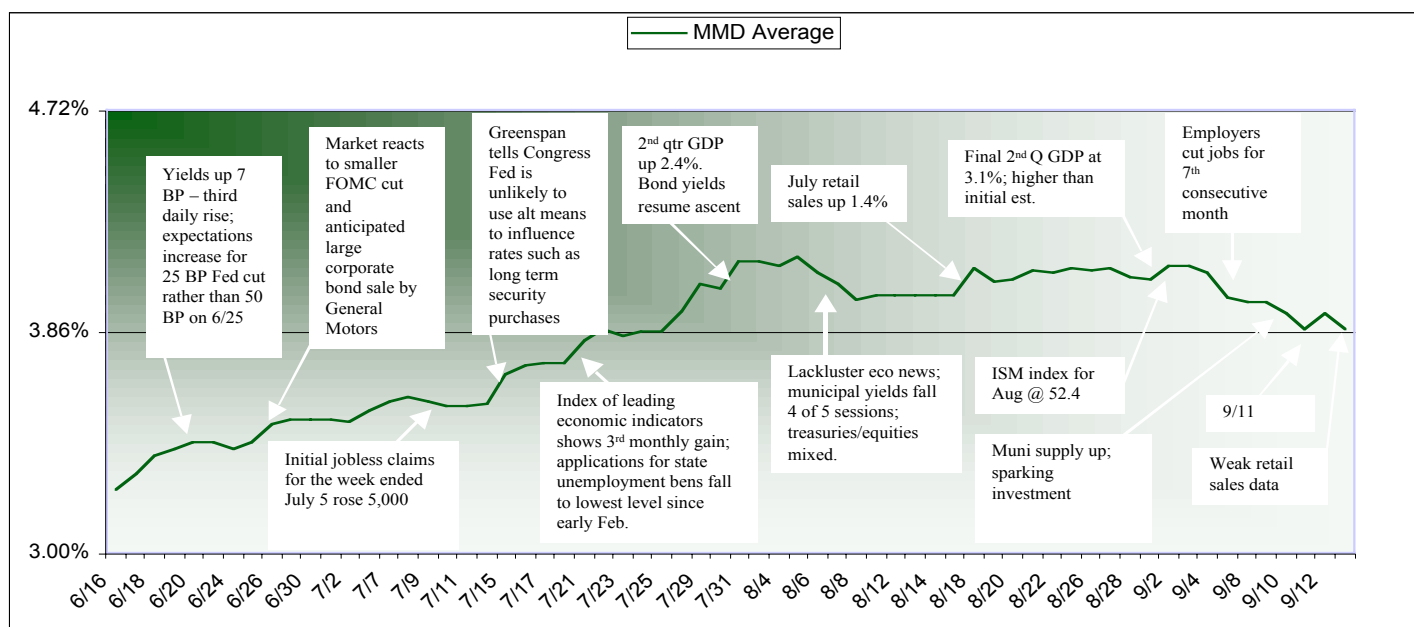
With regard to future projections, analysts agree that the yield curve has definitely steepened and shorter term rates are not likely to increase as quickly as longer term rates. A lighter calendar is also expected for rest of the year. Although \$200 billion of municipal bonds were sold through July, many do not expect that total volume for 2003 will top last year's yearly volume of \$360 billion. Continued economic growth is anticipated, although the pace of that recovery is debated as well as its sustainability, due to the fact that it is primarily a jobless recovery.

In short, for many municipal bond market participants, the rest of the year is expected to be smaller, slower and less exciting, albeit, geopolitical events, continued economic woes, Federal Reserve strategies, and equity market turns may yet hold a few surprises.

Stay tuned . . . 

MARKET MOVERS

MMD AAA Average Yield (1-30 Years)
6/15/03 - 9/15/03





Georgian Court, NJEFA partner to finance new projects

In August, NJEFA assisted Georgian Court College in financing significant campus improvements through a \$15.2 million tax-exempt bond issue. Structured as a negotiated, fixed rate transaction, NJEFA's 2003 Series, Project C bonds were underwritten by Citigroup Global Markets, Inc., which was instrumental in working with the Authority to obtain a rating upgrade from Standard and

Poor's for the College from a BBB to BBB+. Moody's Investors Service reaffirmed its Baa1 rating with a stable outlook.


NJEFA bond proceeds will be loaned to the College to help pay for construction of a new residence complex, which represents the first phase of a program designed to meet the future needs of the Georgian Court College Community. The College's groundbreaking for

the complex in May marked the beginning of a renaissance of improvements on campus. The complex includes a 36,000 s.f. facility for 80 students (pictured in rendering at left) and a separate residence hall for faculty and staff. The buildings are designed to comple-



Shown above is a rendering of Georgian Court College's new student residence facility. At top right is a photo of the College's renowned Mansion.

ment the existing Georgian style architecture of the campus. The new complex will accommodate the College's growing student resident population and will provide additional space for upper-class students in the women's day division.

NJEFA's 2003 Series bonds will also help finance the construction of a science wing, renovation of the College's arts and sciences building and renovation of a student lounge within the College's library, which was originally financed by NJEFA in 1991 through its first ever bond issue completed for Georgian Court College. 

Rowan restructuring one of many NJEFA post-closing services

NJEFA's work for its clients doesn't end with a bond sale closing. In fact, in many respects the Authority's work begins as the sale closes. Although less glamorous than its bond financing services, "behind-the-scenes" post-closing services, often translate into huge savings for our clients.

Such was the case with Rowan University's recent escrow restructuring that was completed in August.


In 2001, Rowan advance refunded two series of bonds it had issued in 1993 and 1996. An escrow was established and invested in U.S. State and Local Government Series ("SLGS") securities to defease the old debt. Due to market conditions at the time, the average interest rate on the SLGS was below the maximum allowable by tax law, thus creating negative arbitrage. NJEFA and its derivatives consultant, Investment Management Advisory Group, Inc. ("IMAGE") developed an escrow restructuring

program to bring the earnings in the escrow fund up to the allowable limit and recoup the negative arbitrage.

As the Authority's Escrow Restructuring Agent, IMAGE monitored the market for opportunities to redeem the original SLGS and re-subscribe for higher yielding SLGS. The program was a success and, after a period of two months, resulted in a cash payment to Rowan of nearly \$450,000 in recaptured negative arbitrage. The restructuring raised the yield in the escrow nearly 25 basis points. The Authority is working on similar restructuring opportunities for other institutions.

Rowan's restructuring is just one example of the important services NJEFA provides its clients after a bond issue has closed. Others include ongoing monitoring of the market for refunding opportunities, management of investment and reinvestment of bond funds, and monitoring various available money market

funds for greater investment yields. NJEFA also handles all arbitrage compliance matters and cultivates relationships with Trustees and Remarketing Agents, often negotiating as an advocate for reduced fees for our clients. We also provide our clients with continuing education opportunities to foster greater understanding of our industry and the capital marketplace.

While this represents only a few "behind-the-scenes" services NJEFA provides, we are always striving to find new ways and opportunities to serve New Jersey's higher education community better. 



NJEFA refundings a success story for Ramapo College of NJ

NJEFA captured nearly \$800,000 in savings on two series of current refunding bonds it issued for Ramapo College of New Jersey in May of this year. In total, the Authority issued \$11,120,000 in Refunding Revenue Bonds, in an Ambac insured transaction that was underwritten by Commerce Capital Markets. Proceeds of the bonds refunded the College's outstanding Series 1993 D and E bonds. The transaction yielded a True Interest Cost of 3.136% and a net present value benefit to the College of \$781,757.35.

This transaction marked the second successful financing by NJEFA in less than a year on behalf of the College. In October of 2002, NJEFA sold over \$60.4 million bonds to finance new capital projects deemed vital to the College's efforts to address rising enrollment demands and increasing numbers of students requesting to live on campus.

Bond proceeds were used in part to complete a new 528-bed student residence facility known as the College's Phase VII Housing Project and construction of an additional 300-

bed student residence, the Phase VIII Housing Project. Authority bonds in 2002 also financed the con-

struction of the Bill Bradley Sports and Recreation Center, an 83,000 square foot addition to the College's athletic facility, which is scheduled to open in the Spring 2004. NJEFA Executive Director Roger Anderson, pictured at left at the construction site for the new Center said, "The Bradley Center is a key example of a trend we are seeing both across the State and nationally where institutions are investing heavily in student life facilities." Anderson said, "In a competitive environment where students have choices, endowing a campus with these state-of-the-art facilities not only improves the quality of campus life, but its attractiveness to prospective students as well."

No doubt students at Ramapo College will enjoy the amenities of the Bradley Center for generations to come. The Center will feature a basketball court, gymnasium, pool, indoor jogging track, fitness room and additional space for the College's Athletic Department and teams.

NJEFA is currently working with the College to structure an additional series of refunding bonds to take advantage of continued favorable rates in the municipal markets.



Above, NJEFA Executive Director Roger Anderson visits the site for Ramapo College's new Bill Bradley Sports and Recreation Center. The bottom rendering shows one of the new interior features of the Bradley Center, scheduled to open in the spring of 2004.

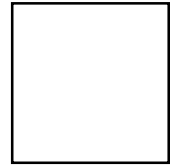


NJEFA 2003 ISSUES CLOSED THROUGH 10-10-03

Institution	Project	Closing Date	Amount
Private			
Princeton Theological Seminary	Capital improvements; refunding	1-22-03	\$ 26, 125,000
Centenary College	Capital improvements	1-28-03	\$ 14,775,000
Drew University	Deferred maintenance	5-29-03	\$ 20,855,000
Princeton University	Refunding	6-26-03	\$ 112,510,000
Princeton University	Capital improvements	8-14-03	\$ 75,000,000
Georgian Court College	Capital improvements	8-21-03	\$ 15,215,000
Public			
Ramapo College of New Jersey	Refunding	5-01-03	\$ 11,120,000
New Jersey City University	Capital improvements; refunding	5-07-03	\$ 50,150,000
Montclair State University	Capital improvements	5-14-03	\$ 23,425,000
Kean University	Capital improvements, refunding	9-30-03	\$ 75,000,000
State-Backed			
H.E. Equipment Leasing Fund	Equipment acquisition	5-22-03	\$ 12,620,000
Dormitory Safety Trust fund	Fire suppression sprinkler installation	10-10-03	\$ 5,440,000
GRAND TOTAL			\$ 442,235,000



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2003/2

NJEFA welcomes new board member and new staffer

NEW BOARD MEMBER

NJEFA has welcomed two newcomers to its family. In July, Governor McGreevey appointed Roger L. Jacobs, from West Orange, New Jersey, to NJEFA's Board. In welcoming Jacobs to the Authority, NJEFA's Chair, Vivian Altman




Jacobs

said, "Mr. Jacobs is a tremendous addition to the NJEFA family, and our college and university clients will greatly benefit from his extensive professional experience and perspective."

Jacobs has had a distinguished career in the legal profession and is currently an attorney with the law firm of Jacobs Rosenberg LLC, specializing in labor and employment law. He is a graduate of the School of Indus-


trial Labor Relations at Cornell University and of New York University's School of Law where he earned both his Juris Doctor and his Masters of Law in Labor Law.

In addition to his legal practice, he is an Adjunct Professor at Fordham Law School and teaches at the Institute of Labor Relations at Rutgers. He was a charter member of the Editorial Board of the *New Jersey Lawyer* newspaper and is a frequent author of publications in the labor and employment law fields. 

NEW STAFF MEMBER

Barbara Cannon joined NJEFA in January as Deputy Executive Director. Her current responsibilities include serving as liaison to the Commission on Higher Education and the Public Library Advisory Construction Board, and as coordinator of the Authority's outreach activities, real estate inventory and investor relations program.

Ms. Cannon brings over 20 years of experience in the public sector to the NJEFA as both an elected and appointed official. She currently serves as the Mayor of Old Bridge Township, a position she has held since 1992 and among other activities, is an active member of the Township's Planning Board, Library Board and Economic Development Corporation. Cannon also served for 26 years as the Interlibrary Loan Coordinator for East Brunswick's Public Library.

Ms. Cannon is a graduate of the University of Minnesota with a BA in International Relations. 



Cannon