13 NOV 2024

Fitch Revises Outlook on New Jersey City University to Stable; Affirms IDR and Revs at 'BB+'

Fitch Ratings - New York - 13 Nov 2024: Fitch Ratings has revised the Rating Outlook on the Issuer Default Rating (IDR) and bond rating for New Jersey City University (NJCU) to Stable from Negative. Fitch has also affirmed the 'BB+' IDR and bond rating on approximately $136 million of outstanding par (FYE 2023) New Jersey Educational Facilities Authority (NJEFA) bonds, series 2007F, 2010G, 2015A, 2016D, 2021A and 2021B, issued on behalf of NJCU.

The change in NJCU's rating Outlook to Stable follows significant progress toward achieving fiscal balance despite continued pressure on student enrollment, and management's ongoing execution of multiple asset monetization projects under oversight from a state-appointed fiscal monitor. Together with continued state support, NJCU's actions not only alleviate immediate liquidity concerns, but help rebuild the balance sheet and potentially provide some funding for much-needed capex.

The state of New Jersey (IDR: A+/Stable) provided stabilization aid to NJCU in fiscal years 2024 and 2025 and appointed a fiscal monitor that requires accountability for a comprehensive set of financial, governance, and partnership benchmarks. The state also provides appropriations for operations, pension and outcomes-based measures. Expectations of stable or increased state support, including support for critical capital needs, underpins the 'BB+' ratings despite the university's weak leverage profile, and reflects NJCU's important role in educating its roughly 5,430 (fall 2024) mostly Pell Grant-eligible and minority student population within the state's public higher education system.

SECURITY

The outstanding NJCU bonds issued by NJEFA are general obligations of the university. The series 2021A/B financing is further secured by a first lien pledge on the university's net tuition and certain student fees (no room, board or student wellness fees). This pledge was also extended to the prior NJEFA bonds on a parity basis through a security and intercreditor agreement. (A subordinate lien on net tuition and certain fees secures the university's long-term lease for a separately financed performing arts center.)

Principal and interest on NJEFA bonds are guaranteed by municipal bond insurance policies. The series 2021A/B bonds are additionally secured by cash-funded debt service reserve funds.

KEY RATING DRIVERS

Revenue Defensibility 'bb'

Graduate and Professional Growth, Disciplined Discounting Mitigate Revenue Impact from

Pressured Enrollment

NJCU's local market position is supported by affordability relative to peers with academic year 2024-2025 tuition and mandatory fees of about $14,500 — a price offered to both New Jersey and out-of-state residents — and its urban location that is a short commuter rail ride to New York City. NJCU services a largely first-generation college population that is historically more than three-fourths Black and Hispanic, with well more than half of undergraduates receiving federal Pell grants for low-income students.

In fall 2024, growth in graduate and professional FTEs to 974 from 735 in fall 2023, an increase in transfer matriculations to 461 from 368, and a more disciplined approach to discounting over the past two years helped counteract the revenue effects of declining overall enrollment.

Total headcount in fall 2024 fell to about 5,430 from about 5,830 in fall 2023, reflecting New Jersey's challenging demographic environment and low retention rates among NJCU's vulnerable student base. Fall 2024 enrollment reflects a 4.7% drop in first-time freshman matriculants to 549 from fall 2023's 576. This drop is largely reflective of headwinds faced by colleges nationwide due to delayed federal financial aid awards during the fall 2024 enrollment cycle.

The prior year's enrollment drop to around 5,830 from 6,540 was mostly expected, due to significant reductions in programs and sports offerings as part of NJCU's right-sizing efforts.

Following the sizable programmatic cuts over the past couple of years, NJCU is investing additional funds toward growth and retention efforts in fiscal 2025. The university is also generating increased leads from articulation agreements that provide for seamless transfer of credits from local colleges. NJCU may also partner with another university in the coming years given that a key requirement of the state fiscal monitor's plan is to select, by March 31, 2025, a fiscally sound New Jersey public institution with which to merge, partner, or affiliate.

With over one-third of NJCU's operating revenue derived from the state of New Jersey, both directly in the form of appropriations for operations, pension costs, and outcomes-based measures, and indirectly through scholarship grants to in-state students, the state's stance is critical to NJCU's overall revenue picture. The state's $10 million in stabilization funds for fiscal 2024 and $7 million in fiscal 2025 represents meaningful support of NJCU and NJCU's unique position in the state's higher education landscape.

NJCU does not generate significant income from endowment returns or fundraising.

Operating Risk 'bbb'

Restructuring And State Stabilization Funds Yield Adequate Cash Flows; Capital Needs Remain

NJCU's trustees declared a state of financial emergency at its June 27, 2022 meeting, paving the way to completely overhaul management and tackle an anticipated FY 2023 structural deficit of $23 million that would have severely compromised the university's operating liquidity. The new university administration led by the current interim president maintains a good working relationship with NJCU's faculty labor union, which has facilitated the university's rationalization of programs and services and shared governance.

Significant expense cuts were implemented in fiscal years 2023 and 2024, which enabled NJCU to record adequate Fitch-calculated cash flow margins of over 10%. State stabilization aid of $10 million in fiscal 2024 is included in Fitch's calculations.

Since August 2023, a state-appointed fiscal monitor was assigned to NJCU and has broad latitude to hold the university accountable for a variety of operational, governance, asset monetization and other goals. NJCU expects to record balanced operations for fiscal year 2025 including $7 million in state stabilization aid. Conservatively, these projections do not incorporate several operating enhancements resulting from asset monetization projects that are likely to materialize during the fiscal year.

While NJCU is not entertaining further capital expansion plans, considerable deferred capital needs are both critical and plainly visible. The university has identified at least $26 million in critical infrastructure needs for items such as electrical and plumbing systems, boilers, and heating/air conditioning along with other basic and strategic capital needs. NJCU did not receive an allocation among the state's $400 million Higher Education Infrastructure Trust funds awarded in fiscal 2024. However, with board and state monitor approval, some funds from asset monetization efforts may be utilized toward immediate capital needs.

Financial Profile 'bb'

Leverage, Adjusted for Pension, Off-Balance Sheet Housing and Asset Monetization Remains High

NJCU is highly leveraged. At FYE 2023, Fitch-calculated Available Funds (AF: cash and investments including debt service reserve funds, less restricted net assets) of the university and the NJCU Foundation stood at roughly $46.5 million. This compares to Fitch-adjusted debt of about $337 million ($136 million of bonds, $9.5 million notes, $53 million of debt-equivalent lease obligations, and $138 million of debt-equivalent pension obligations).

The resulting 14% in AF-to-adjusted debt at FYE 2023 is well below thresholds for a 'bb' Financial Profile assessment. However, Fitch considers other analytical adjustments in determining NJCU's effective leverage position. The university's required pension contributions have been fully supported by voluntary state pass-through appropriations, effectively shifting the burden of almost half of NJCU's adjusted debt to the state. Conversely, since NJCU has been providing operating support (approximately $1.9 million in FY24) for the off-balance sheet West Campus Housing, LLC project on university land, Fitch considers the project's $46.5 million outstanding debt in NJCU's adjusted debt.

A significant portion of NJCU's adjusted debt is the result of the pre-2022 management team's major expansion projects that included the addition of a beachside campus in Fort Monmouth, a leased business school campus in downtown Jersey City, a performing arts center, and campus housing. Several of these projects have underperformed, accruing net costs to the university. Some of these projects, and others, are targeted to be re-leased or sold as part of asset monetization efforts directed by the state fiscal monitor. If and when realized, these asset monetization efforts are expected to increase NJCU's cash reserves, reduce leverage, and further improve operating performance.

Fitch's Financial Profile assessment of 'bb' is based on a forward-looking scenario that considers future revenue, expenses and extraordinary items while adding stress to NJCU's investment portfolio. Fitch has incorporated conservative assumptions regarding some of NJCU's most likely asset monetization efforts into this forward-looking scenario. The resulting adjusted leverage ratio supports the 'bb' Financial Profile assessment.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

--Reduction of support from the state of New Jersey, including support for pension and other benefit costs, operating appropriations, stabilization funds, or student aid;

--Inability of the university to achieve benchmarks required by state-appointed fiscal monitor;

--Continued attrition of the student population or net student revenue.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Achievement of benchmarks required by state-appointed fiscal monitor;

--Extraordinary support from the state of New Jersey or another external party, merger, or affiliation partner;

--Stabilization or growth of net student revenue on a consistent basis, resulting from higher net tuition per student, increased enrollment, higher auxiliary revenue, and/or improved retention.

PROFILE

Opened in 1929 and granted university status in 1998, NJCU is a four-year coeducational public university located in Jersey City, NJ. NJCU offers baccalaureate, graduate and doctoral degrees in the arts, sciences, business, professional studies and education. NJCU has an urban mission and is primarily a commuter institution, attracting the majority of its students from surrounding counties.

Andres Acebo was appointed as interim president in January 2023 for a two-year term, replacing an acting president who was appointed following the board's emergency declaration in 2022. As NJCU's former university counsel, Mr. Acebo was instrumental to negotiation of the memorandum of understanding with NJCU's faculty union and to that continued working relationship. A new CFO with extensive experience in not-for-profit higher education and healthcare settings was appointed in May 2023, replacing an interim CFO in place for roughly one year. Several new board members have been appointed over the past year, with new regularly scheduled board committees, requirements of the state fiscal monitor.

In August 2023, the state of New Jersey appointed Mr. Henry Amoroso, known as a turnaround specialist with expertise in real estate, to serve as NJCU's fiscal monitor. The monitor's accountability plan for NJCU includes a comprehensive set of governance and fiscal benchmarks with specific deadlines. University management reports meeting all deadlines to date.

The fiscal monitor's exit from oversight is expected by June 30, 2025 subject to NJCU's continued meeting of all specified deadlines and benchmarks. One significant benchmark requires NJCU to identify a merger, partner, or affiliation candidate among fiscally sound New Jersey public institutions by Dec. 31, 2024 and choose which merger, partner, or affiliation option to pursue by March 31, 2025.

NJCU is accredited by the Middle States Commission on Higher Education (MSCHE), with the next regularly scheduled self-study evaluation scheduled for 2027-2028. NJCU has promptly responded to all recent MSCHE interim update requests regarding the state monitor's plan, fiscal reports and other data.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Akiko Mitsui, CFA
Director
Primary Rating Analyst
+1 212 612 7822
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Nancy Moore
Director
Secondary Rating Analyst
+1 212 908 0725

Emily Wadhwani
Senior Director
Committee Chairperson
+1 312 368 3347

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
New Jersey City University (NJ)	LT IDR	BB+	Affirmed		BB+
• New Jersey City University (NJ) /General Revenues/1 LT	LT	BB+	Affirmed		BB+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance College and University Rating Criteria (pub.19 Sep 2023) (including rating assumption sensitivity)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub.12 Jan 2024) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

New Jersey Educational Facilities Authority (NJ)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or

FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch’s website.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.