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JIM POOLE
Executive Director

**MINUTES OF THE MEETING OF THE
NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY
HELD AT 103 COLLEGE ROAD EAST, PRINCETON, NEW JERSEY
ON TUESDAY, FEBRUARY 22, 2011**

The meeting was called to order at 9:02 a.m. by Chairman Jacobs. The New Jersey Educational Facilities Authority gave notice of the time, place and date of this meeting via fax and email on June 11, 2010, to The Star Ledger, The Times and the Secretary of State and by posting the notice at the offices of the Authority in Princeton, New Jersey. Pursuant to the New Jersey Open Public Meetings Act, a resolution must be passed by the New Jersey Educational Facilities Authority in order to hold a session from which the public is excluded.

AUTHORITY MEMBERS PRESENT:

Roger B. Jacobs, Esq., Chairman
Ridgeley Hutchinson, Vice Chairman
Joshua Hodes, Treasurer
Andrew P. Sidamon-Eristoff, State Treasurer (represented by Steven Petrecca)
Steven D. Weinstein, Chair, Comm. on Higher Education (represented by Glenn Lang)

AUTHORITY MEMBERS ABSENT:

None

STAFF PRESENT:

James Poole, Executive Director
Sheryl Stitt, Director of Communications
Katherine Newell, Esq., Director of Risk Management
Marie Mueller, Controller
Kristen Middleton, Assistant Controller
Debra Paterson, Sr. Risk Manager
Gary Vencius, Senior Accountant
Jennifer Soyka, Esq., Project Manager
Jennifer LaMarsh, Project/Communications Assistant
Denise Carroll, Administrative Assistant
Linda Hazley, Office Manager
Sheila Toles, Exec. Assistant/Human Resources Specialist

ITEMS OF DISCUSSION

1. Resolution of Appreciation to Mary Jane Darby

The Members were asked to consider the adoption of a resolution acknowledging and expressing appreciation to Mary Jane Darby for her leadership as Director of Project Management and Acting Executive Director to the Authority for the past eight years.

Mr. Jacobs thanked Ms. Darby for her service to the Authority and reported that she was critical in maintaining the Authority's continuity until an Executive Director was appointed. Mr. Jacobs noted that Ms. Darby would be missed.

Mr. Hutchinson moved the adoption of the following entitled resolution:

RESOLUTION OF APPRECIATION TO MARY JANE DARBY

The motion was seconded by Mr. Petrecca and passed unanimously.

The adopted resolution is appended as Exhibit I.

2. Approval of the Minutes of the Meeting of January 25, 2011

The minutes of the meeting of January 25, 2011 were hand delivered to Governor Chris Christie under the date of January 28, 2011. Mr. Hutchinson moved that the minutes of the meeting be approved as presented; the motion was seconded by Mr. Petrecca and passed unanimously.

3. Approval of Resolution Authorizing Execution of a Right of Way Agreement on Behalf of Rowan University

Ms. Newell reported that in connection with the Authority's issuance of the Series 2001 C bonds for Rowan University, the Authority acquired, and then leased to the University, certain parcels of property in the township of Mantua, Gloucester County. She reported that the property abuts the Lipari Landfill, which is owned by a third person, and that the landfill had been declared a superfund site by the US Environmental Protection Agency. Ms. Newell reported that the landfill is being remediated by the US Army Corps of Engineers and that the Corps of Engineers had requested a temporary right-of-entry for construction; temporary easements to allow access and movement of fill during construction; and a permanent easement to increase the buffer area from the landfill.

Mr. Petrecca moved the adoption of the following entitled resolution:

RESOLUTION OF THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY CONSENTING TO AND AUTHORIZING THE EXECUTION AND DELIVERY OF A RIGHT-OF-ENTRY FOR CONSTRUCTION AND CERTAIN EASEMENTS BETWEEN THE AUTHORITY AND THE DEPARTMENT OF

ARMY, U.S. ARMY CORPS OF ENGINEERS RELATING TO CERTAIN
PROPERTY OWNED BY THE AUTHORITY AND LEASED TO ROWAN
UNIVERSITY

The motion was seconded by Mr. Hutchinson and passed unanimously.

The adopted resolution is appended as Exhibit II.

4. **Approval of Resolution Authorizing the Amendment of Documents Relating to NJEFA Revenue Bonds, Kean University Issue, 2007 Series D**

Ms. Newell reported that in April 2007, the Members had approved the financing of various capital projects on behalf of Kean University including the construction of two new residence halls with a connecting dining facility. She reported that the University had requested that the project scope be expanded to permit the use of bond proceeds for certain expenses to be incurred in connection with the development of faculty housing; a new emergency access road to serve the undergraduate residence halls; and the development of academic instructional facilities.

Ms. Newell reminded the Members that at the January 25, 2011 meeting, the resolution had been tabled because the members had questions and preferred that the issue be put on hold until a representative of the University was available to attend an Authority meeting. Ms. Newell announced that Phil Connolly, Executive Vice President of Operations for Kean was present today and Mr. Connolly answered the Members' questions and concerns.

Mr. Petrecca moved the adoption of the following entitled resolution:

RESOLUTION OF THE NEW JERSEY EDUCATIONAL FACILITIES
AUTHORITY AUTHORIZING A MODIFICATION TO THE PROJECT FOR THE
AUTHORITY'S REVENUE BONDS, KEAN UNIVERSITY ISSUE, SERIES
2007 D

The motion was seconded by Mr. Hutchinson and passed unanimously.

The adopted resolution is appended as Exhibit III.

5. **Report on Tax-Exempt Lease Financing on Behalf of Kean University in the Amount of \$15,000,000**

Ms. Newell reported that on February 15, 2011, the Authority completed a tax-exempt equipment lease transaction on behalf of Kean University. She reported that the lease was competitively bid and that five bids were received and was awarded to Banc of America Public Capital Corporation at an interest rate of 2.82%. She reported that the term of the lease is ten years and that the proceeds will be used for the acquisition and installation of HVAC equipment for certain student residences on the University's campus.

Mr. Jacobs questioned a solo professional handling the transaction and Ms. Newell explained that counsel for the transaction was selected by the lessor, Banc of

America and that they utilize that particular counsel nationwide on their tax exempt lease transactions. Mr. Jacobs expressed concern and requested that Mr. Poole make an inquiry as to why a solo professional was used.

A copy of the Transaction Summary for the issue is appended as Exhibit IV.

Mr. Hodes excused himself from the meeting following the report on the Kean transaction.

6. **Guest Speaker, John Nelson, Managing Director of Public Finance, Moody's Investors Service**

John Nelson, Managing Director of Public Finance for Moody's Investor's Service, provided the Authority with an enlightening Powerpoint presentation on Moody's 2011 outlook for the Higher Education Industry nationally and in New Jersey. Mr. Nelson's presentation was followed by a helpful question and answer period.

Mr. Hutchinson excused himself from the meeting following Mr. Nelson's presentation. Since Mr. Lang and Mr. Hodes had previously left the meeting, there was no longer a quorum. Mr. Roncs advised that, as a result, the meeting had terminated for the purpose of conducting business. Accordingly, the Chairman stated approval of Ms. Mueller's report would be added to the agenda for the next meeting as an action item.

7. **Report on Pending Projects**

Ms. Soyka reported that there are several projects for which various colleges and universities have requested Authority financing. Ms. Soyka briefly described the projects and reported that the projects are under review and at various stages of development.

A summary of the projects to be financed, together with estimated financing amounts and proposed sale dates, is appended as Exhibit V.

8. **Legislative Update**

Ms. Stitt reported on two bills, the first A-2505 concerned compensation and benefits of officers, employees and members of state and local authorities. She reminded the Members that the Authority is already generally compliant with the bill's provisions.

The second bill, S-1730, known as the "NJ First Act," would require certain officers and employees of the State, including Authorities, to reside in the State. Ms. Stitt reported that the bill contains a hardship waiver provision administered through a committee and a grandfather provision for current employees that reside outside of the State, as long as they do not have a break in service of more than 7 days. This bill is on second reading in the Senate to consider the Governor's conditional veto recommendations.

Ms. Stitt also reported that the Assembly Higher Education Committee held a second hearing a few weeks ago regarding the Higher Education Task Force. She advised

that currently, there were no legislative proposals to implement any of the recommendations of the Taskforce and that there had been no hearings in the Senate to date.

9. **Report on Operating and Construction Fund Statements**

Ms. Mueller reviewed the Results of Operations and Budget Variance Analysis and reported on the status of construction funds and related investments.

10. **Presentation – 2010 Year in Review**

Mr. Poole gave an informative presentation on the Authority's 2010 year in review.

11. **Next Meeting Date**

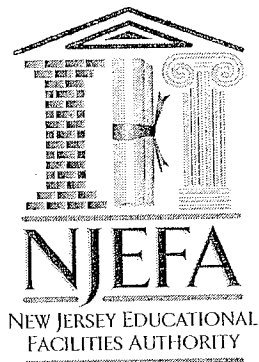
Chairman Jacobs reminded everyone of the April 26, 2011 meeting at Caldwell College in Caldwell, New Jersey and also reminded that the next meeting will be on Tuesday, March 22, 2011 at 9:00 a.m. at the Authority's office.

The meeting ended upon announcement thereof by the Chairman.

Respectfully submitted,



James Poole
Secretary



RESOLUTION OF APPRECIATION

TO

MARY JANE DARBY

WHEREAS, on September 3, 2002, Mary Jane Darby began her career with the New Jersey Educational Facilities Authority (the "Authority") as Director of Project Management; and

WHEREAS, Ms. Darby served in that capacity for more than eight years, and served as Acting Executive Director and Acting Secretary of the Authority from July 2010 to November 2010; and

WHEREAS, Ms. Darby has tendered her resignation as Director of Project Management and Assistant Secretary of the Authority effective February 11, 2011; and

WHEREAS, during her tenure, Ms. Darby committed her extensive time, professionalism and knowledge of higher education finance and the municipal financial markets, to the State of New Jersey, to the Authority, and to its college, university and library clients; and

WHEREAS, during her tenure, Ms. Darby completed more than 100 financing transactions totaling over \$7.1 billion in par value of which approximately \$3.3 billion provided new financing for college and university campus and public library projects and facilities across New Jersey; and

WHEREAS, the Authority's Members and staff wish to acknowledge the extraordinary contributions that Ms. Darby has made to the Authority and to extend their appreciation for her service to the Authority, to New Jersey's higher education community, and to the State.

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby expresses its deep and sincere appreciation to Ms. Darby for her dedicated public service to the State of New Jersey and for her many and significant contributions to the Authority and to New Jersey's public and private colleges and universities and public libraries.

BE IT FURTHER RESOLVED, that the legacy of Ms. Darby's dedicated public service is the significantly enhanced physical facilities of New Jersey's institutions of higher education and public libraries, which have benefited, and will continue to benefit generations of New Jersey's college students and all of the citizens of the State.

BE IT FURTHER RESOLVED, that the Authority extends its very best wishes to Ms. Darby and wishes her much success in all her future endeavors.

BE IT FURTHER RESOLVED, that a copy of this Resolution of Appreciation be given to Ms. Darby as a tribute to her dedicated public service to the New Jersey Educational Facilities Authority and to the State of New Jersey.

_____ Mr. Hutchinson _____ moved that the foregoing resolution be adopted as introduced and read, which motion was seconded by _____ Mr. Petrecca _____ and upon roll call the following members voted:

AYE: Roger B. Jacobs
Ridgeley Hutchinson
Joshua Hodes
Andrew Sidamon-Eristoff (represented by Steven Petrecca)
Steven D. Weinstein (represented by Glenn Lang)

NAY: None

ABSTAIN: None

ABSENT: None

The Chair thereupon declared said motion carried and said resolution adopted.

RESOLUTION OF THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY (THE "AUTHORITY") CONSENTING TO AND AUTHORIZING THE EXECUTION AND DELIVERY OF A RIGHT-OF-ENTRY FOR CONSTRUCTION AND CERTAIN EASEMENTS BETWEEN THE AUTHORITY AND THE DEPARTMENT OF ARMY, U.S. ARMY CORPS OF ENGINEERS RELATING TO CERTAIN PROPERTY OWNED BY THE AUTHORITY AND LEASED TO ROWAN UNIVERSITY

- WHEREAS:** The New Jersey Educational Facilities Authority (the "Authority") was created pursuant to the New Jersey Educational Facilities Authority Law, P.L. 1967, c. 271, N.J.S.A. 18A:72A-1 et seq., as amended and supplemented (the "Act") and authorized to issue its obligations to assist New Jersey's public and private colleges and universities to finance educational facilities as defined in the Act; and
- WHEREAS** On April 10, 2001, the Authority issued its Revenue Bonds, Rowan University Issue, Series 2001 C (the "2001 C Bonds") to finance, *inter alia*, the acquisition by Rowan University (the "University") of certain parcels of real property; and
- WHEREAS:** In connection with financing the acquisition of certain parcels of real property with proceeds of the 2001 C Bonds, the Authority took title to several parcels of real property, including Lots 3 and 8 in Block 261 in the Township of Mantua, County of Gloucester, State of New Jersey (the "Authority Owned Property") and leased such Authority Owned Property to the University pursuant to the Lease and Agreement dated as March 15, 2001 (the "2001 C Agreement"); and
- WHEREAS:** The Authority Owned Property and Lot 9 in Block 261 in the Township of Mantua, County of Gloucester, State of New Jersey, which is owned by the University (the "University Owned Property"), abut Lot 7 in Block 261, in the Township of Mantua which is a landfill owned by a third person which has been declared as a superfund site by the United States Environmental Protection Agency (the "EPA") and referred to herein as the "Lipari Landfill Site"; and
- WHEREAS:** The Lipari Landfill Site is being remediated on behalf of the EPA by the Department of Army, Baltimore District, United States Army Corps of Engineers (the "Corps of Engineers") which has asked the University and the Authority for easements necessary to accomplish the remediation; and
- WHEREAS:** In order to avoid delays and provide adequate time for reviewing and finalizing the Easements (hereinafter defined) between the respective parties and awarding construction contracts for the remediation, the Corps of Engineers has requested the Authority and the University to grant a right-of-entry for construction on the Authority Owned Property and the University Owned Property, to permit access to the Lipari Landfill Site for a period of twelve (12) months (the "Right-of-Entry"); and

WHEREAS: In addition, the Corps of Engineers has requested (i) a two (2) year temporary easement and right-of-way on part of the Authority Owned Property and part of the University Owned Property as a borrow and work area to permit the borrowing and/or deposit of fill, movement and storage of equipment and other necessary action incident to remediation (the "Borrow Easement"); (ii) a two (2) year temporary easement and right-of-way on part of the Authority Owned Property for a temporary work area to permit deposit of fill, movement and storage of equipment and other necessary action incident to remediation (the "Work Area Easement"); and (iii) a perpetual easement on part of the Authority Owned Property and part of the University Owned Property to construct, operate and maintain channel improvement work and expand the size of a buffer to the Lipari Landfill Site (the "Channel Improvement Easement" and together with the Borrow Easement and the Work Area Easement, the "Easements"); and

WHEREAS: The University has advised the Authority that the University will grant the Right-of-Entry and applicable Easements to the Corps of Engineers on the University Owned Property and has requested the Authority to grant the Right-of-Entry and the Easements on the Authority Owned Property; and

WHEREAS: The Members of the Authority have determined that it is in the interests of the Authority and the University to grant the Right-of-Entry and the Easements on the Authority Owned Property.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY:

SECTION 1. The Members hereby authorize the Authority to grant to the Corps of Engineers the Right-of-Entry and the Easements on the Authority Owned Property provided that: (a) the Corps of Engineers and/or the University bear any costs incurred in connection with the grant, including costs for preparation and recording of the Right-of-Entry and the Easements and the maintenance of the Authority Owned Property; and (b) that the rights of the Authority and the University under the 2001 C Agreement are not abridged or limited by the Right-of-Entry and the Easements.

SECTION 2. The Members hereby authorize necessary changes, if any, to the 2001 C Agreement or any other lease and agreements (collectively, the "Agreements") to which the Authority Owned Property is or becomes subject to in connection with additional financings by the Authority.

SECTION 3. The Members hereby authorize the Executive Director, the Deputy Executive Director, the Director of Risk Management and the Assistant Secretary(s) (each, an "Authorized Officer") to execute and deliver, and/or to attest, if necessary, the Right-of-Entry and the Easements for the Authority Owned Property, each in the form provided by the Corps of Engineers; with such changes (including any changes necessary to protect the rights of the Authority and University under the Agreements) as the Authorized Officer executing the same deems necessary or appropriate with advice of the New Jersey Attorney General ("Authority

Counsel”), such approval to be conclusively evidenced by execution of the Right-of-Entry and applicable Easements.

SECTION 4. The Members hereby authorize the Authorized Officers to take any and all actions necessary and/or appropriate to implement the Right-of Entry and the Easements including execution and delivery of any additional documents, notices and instruments and any necessary and/or appropriate amendments to the 2001 C Agreement or any other documents each in the form approved by the Authorized Officer executing the same with the advice of Authority Counsel, such execution to be conclusive evidence of the approval thereof.

SECTION 5. Any additional easements executed by the Authority are bound to the same terms and conditions of the herein approved Right-of-Entry and Easements and copies of the Right-of-Entry, the Easements and any additional easements are to be provided to the Members.

SECTION 6. This resolution shall take effect in accordance with *N.J.S.A. 18A:72A-4(i)*.

_____ Mr. Petrecca _____ moved that the foregoing resolution be adopted as introduced and read, which motion was seconded by _____ Mr. Hutchinson _____ and upon roll call the following members voted:

AYE: Roger B. Jacobs
Ridgeley Hutchinson
Joshua Hodes
Andrew Sidamon-Eristoff (represented by Steven Petrecca)
Steven D. Weinstein (represented by Glenn Lang)

NAY: None

ABSTAIN: None

ABSENT: None

The Chair thereupon declared said motion carried and said resolution adopted.

PROJECT OVERVIEW

Lipari Landfill Superfund Site, (EPA ID#: NJD980505416)
743 Mullica Hill Rd.
Mullica Hill, NJ 08062

Site Description:

The 16-acre Lipari Landfill site includes a 6-acre inactive landfill that, between 1958 and 1971, accepted household waste, liquid and semi-solid chemical wastes, and other industrial materials. These wastes were disposed of in trenches originally excavated for sand and gravel. Approximately 3,000,000 gallons of liquid wastes and 12,000 cubic yards of solid wastes were disposed of at the site. Some of the wastes included solvents, paints and thinners, formaldehyde, dust collector residues, resins, and solid press cakes from the industrial production of paints and solvents.

Cleanup Actions:

Source Control (On-going): In 1982, EPA selected a remedy to stop pollutants from migrating from the landfill by constructing a landfill containment system consisting of an underground soil-bentonite cut-off wall (slurry wall) around the area keyed into a thick underlying clay, with a synthetic membrane cover over the landfill surface. EPA completed the slurry wall and landfill cap project in 1984. During the installation of this slurry wall landfill trash was observed on the outside of the slurry wall on the north.

Ground Water, Leachate and Vapor Treatment (On-going):

In 1985, EPA selected a remedy to clean up the groundwater and leachate from the landfill. The remedy included: (1) installing extraction and injection wells within the landfill containment to pump out the contaminated leachate and groundwater for treatment; (2) installing wells within the underlying Kirkwood aquifer to monitor the groundwater down gradient of the site; and (3) treating the pumped water on-site prior to discharge to a nearby county sewer system. Since 1992 EPA has treated over 330 million gallons of landfill leachate containing approximately 80 tons of contaminants. (4) During 2000, a thermal oxidizer unit was incorporated for simultaneous extraction of toxic volatiles. The soil vapor extraction system has so far removed and treated approximately 215 tons of contaminants.

Containment Enhancement - Slurry Wall Project (Future):

Facts: There is a known area of contamination located north of the existing slurry wall that was not encapsulated by the original containment system. This area has a water collection system and an array of monitoring wells to ensure complete capture of landfill leachate and contaminated groundwater.

Problem:

The current collection system is vulnerable to changes in surface water runoff and alterations to existing groundwater flow patterns. Hydrological changes may occur with land development or additional private well pumping. If contaminated groundwater were to by-pass the existing collection system, the Chestnut Branch (of Mantua Creek) could possibly become contaminated and eventually re-contaminate Alcyon Lake.

Solution:

EPA has chosen to fully encapsulate the trash and contaminated soil located outside the northern perimeter of the existing slurry wall. This will be accomplished by

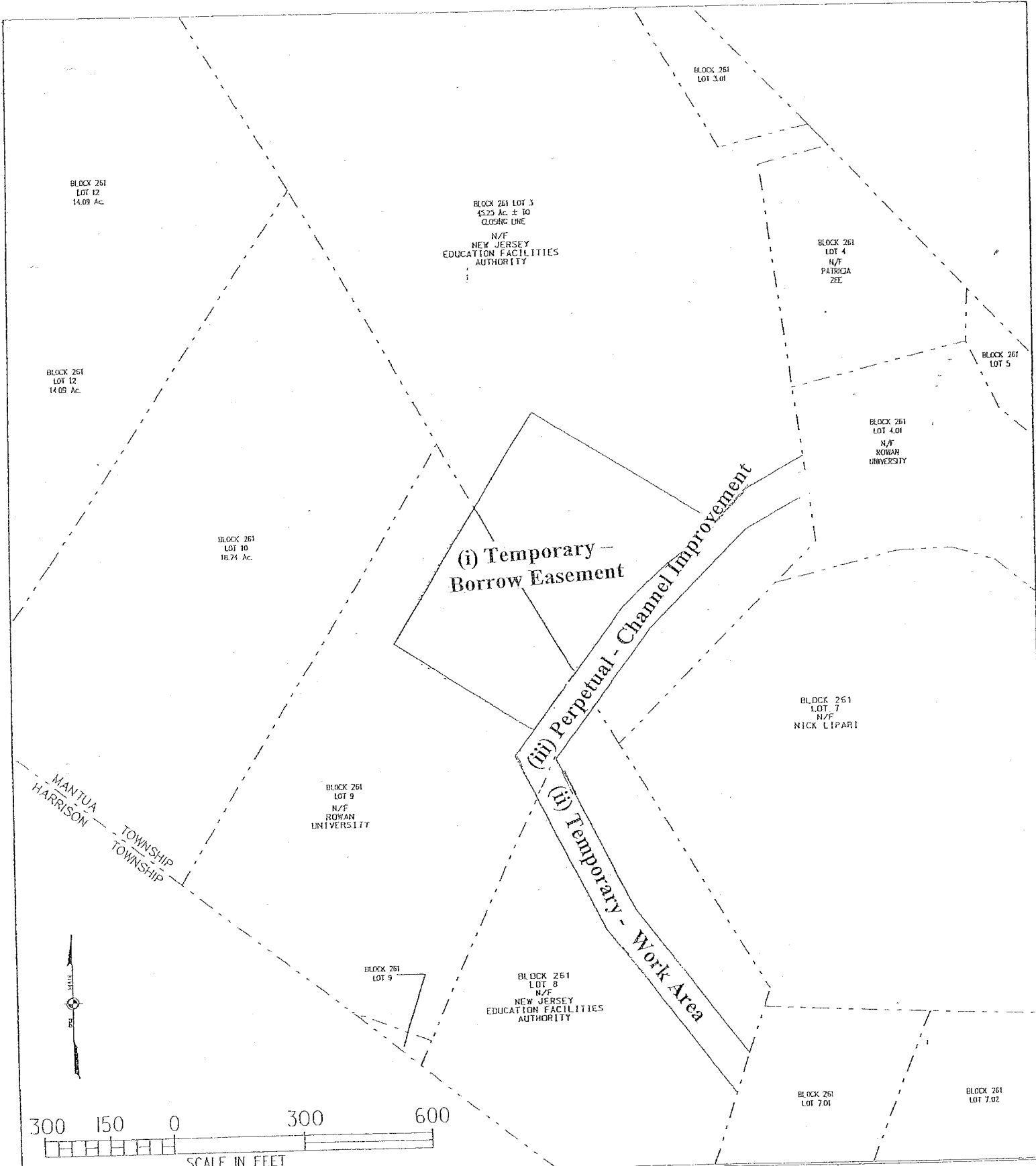
(1) Installing a 750 foot slurry wall around the contaminated area which will tie into an existing wall system. (2) Capping the area with a high density polyethylene geo-membrane cover (3) Relocating the Rabbit Run Channel so it will not interfere with the new wall and cap, (4) Installing soil-vapor extraction wells within the confines of the new slurry wall and connect them to the thermal oxidizer unit to remediate the soils within the newly contained area.

Schedule:

EPA expects this work to commence in late May/ early June 2011. Major construction activities should be completed by late Fall 2011.

SUMMARY OF EASEMENTS:

Owner	Block / Lot	Acreage (+/-) of Easement	Type of Easement	Description
NJEFA	261/3	1.32 Acres	Perpetual - Channel Improvement	Channel Relocation/ Extend Slurry Wall
NJEFA	261/3	3.61 Acres	Temporary -- Borrow Easement	Borrow Soil for Project and Regrade
NJEFA	261/8	1.58 Acres	Temporary - Work Area	Temporary Work Area Ingress/Egress
Rowan University	261/9	0.38 of an Acre	Perpetual -- Channel Improvement	Channel Relocation/ Extend Slurry Wall
Rowan University	261/9	2.40 Acres	Temporary - Borrow Easement	Borrow Soil for Project and Regrade



BLOCK 261 LOT 3
45.25 Ac. ± TO
CLOSING LINE
N/F
NEW JERSEY
EDUCATION FACILITIES
AUTHORITY

BLOCK 261
LOT 4
N/F
PATRICIA
ZEE

BLOCK 261
LOT 4.01
N/F
ROWAN
UNIVERSITY

BLOCK 261
LOT 7
N/F
NICK LIPARI

BLOCK 261
LOT 9
N/F
ROWAN
UNIVERSITY

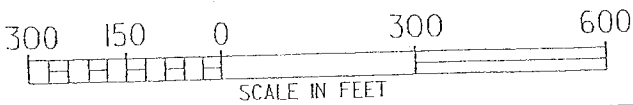
BLOCK 261
LOT 8
N/F
NEW JERSEY
EDUCATION FACILITIES
AUTHORITY

BLOCK 261
LOT 9

BLOCK 261
LOT 7.01

BLOCK 261
LOT 7.02

MANTUA
HARRISON
TOWNSHIP
TOWNSHIP



LEGEND

- SUBJECT TRACT BOUNDARY
- ADJACENT TRACT BOUNDARY
- - - - - EXTENDED PROPERTY LINE

PROPERTY LOCATION
PLAT

U.S. ARMY ENGINEER DISTRICT
CORPS OF ENGINEERS
BALTIMORE, MARYLAND

LIPARI LANDFILL

EPA SUPERFUND SITE
GLOUCESTER COUNTY, NEW JERSEY

LAND OWNER: ROWAN UNIVERSITY / NJEFA	
SQUARE FEET:	ACRES:
JURISDICTION: MANTUA TOWNSHIP	

SCALE: AS SHOWN	TRACT NO. :
DATE: 13 JAN 2011	



**RESOLUTION OF THE NEW JERSEY EDUCATIONAL FACILITIES
AUTHORITY AUTHORIZING A MODIFICATION TO THE PROJECT
FOR THE AUTHORITY'S REVENUE BONDS, KEAN UNIVERSITY
ISSUE, SERIES 2007 D**

WHEREAS: The New Jersey Educational Facilities Authority (the "Authority") was created as a public body corporate and politic of the State of New Jersey (the "State") pursuant to the New Jersey Educational Facilities Authority Law (being Chapter 72A of Title 18A of the New Jersey Statutes, as amended and supplemented), *N.J.S.A. 18A:72A-1 et seq.* (the "Act"); and

WHEREAS: On April 13, 2007, the Authority issued its Revenue Bonds, Kean University Issue, Series 2007 D Bonds (the "2007 D Bonds") pursuant to the Act, a Resolution of the Authority adopted on February 28, 2007, and a Trust Indenture dated as of April 1, 2007 (the "2007 D Indenture") by and between the Authority and U.S. Bank National Association, as Trustee for the purpose, *inter alia*, of financing various capital projects on behalf of Kean University (the "University") including the construction of two new residence halls with a connecting dining facility (the "Series 2007 D Project"); and

WHEREAS: The Board of Trustees of the University entered into a Lease and Agreement dated as of April 1, 2007 with the Authority to secure repayment of the 2007 D Bonds (the "2007 D Lease"); and

WHEREAS: Pursuant to Section 2.07 of the 2007 D Lease the scope of the Series 2007 D Project may be modified to increase or change the scope of the project, upon the mutual agreement of the Authority and the University; and

WHEREAS: Pursuant to Section 5.06 of the 2007 D Indenture the 2007 D Lease may be amended or modified as long as an executed copy of the amendment is filed with the Trustee and the amendment is in accordance with the requirements for amendments pursuant to Article VIII of the 2007 D Indenture; and

WHEREAS: The University is nearing completion of the Series 2007 D Project and desires the Authority to modify the scope of the Series 2007 D Project to permit the use of any remaining proceeds of the 2007 D Bonds for certain expenses to be incurred in connection with the (i) development of new, revenue-generating faculty housing (the "Faculty Housing Project"), (ii) a new emergency access road to serve the undergraduate residence halls (the "Emergency Access Road Project"), and (iii) the development of academic instructional facilities (the "Instructional Space Project" and together with the Faculty Housing Project and the Emergency Access Road Project, the "Project Modification"), as available; and

WHEREAS: The University has advised the Authority that the Faculty Housing Project is a key, strategic initiative for the University in order to assist in efforts to recruit and retain world-class faculty members and that the University expects to use approximately \$4,000,000 of the remaining proceeds of the 2007 D Bonds for the Faculty Housing Project; and

WHEREAS: The University has advised the Authority that it is necessary to undertake the Emergency Access Road Project because increased demand for and usage of campus residence halls requires that additional precautionary safety measures be taken to ensure that emergency ingress and egress routes that service the residence halls on the main campus are sufficient and that the University expects to use approximately \$1.25 million of the remaining proceeds of the 2007 D Bonds for the Emergency Access Road Project; and

WHEREAS: The University has advised the Authority that the Instructional Space Project is necessary because the University is nearing capacity of its academic instructional facilities and plans to pursue additional initiatives that will lead to the development of additional instructional space; and

WHEREAS: The University has further advised that it expects to use any remaining proceeds of the 2007 D Bonds that are not used for the Faculty Housing Project and the Emergency Service Road Project for the Instructional Space Project; and

WHEREAS: Amendments to the 2007 D Indenture and the 2007 D Lease are necessary to reflect the Project Modification and such amendments are permitted under Section 8.01 and Section 5.06 of the 2007 D Indenture, respectively, under the conditions set forth therein; and

WHEREAS: The Board of Trustees of the University authorized the Project Modification by resolution adopted on December 4, 2010; and the University has requested that the Authority consent and agree to the Project Modification; and

WHEREAS: The University has requested the Authority to authorize the Project Modification and the Authority has determined that it is necessary and advisable to do so.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY AS FOLLOWS:

Section 1. Authorization of Amendments. The Authority hereby approves the Project Modification and approves the amendment to the Series 2007 D Project and supplement to the 2007 D Indenture in the form attached hereto as Exhibit A (the "First Supplement") and the amendment of the 2007 D Lease in the form attached hereto as Exhibit B (the "Lease Amendment No. 1") and any and all other consents, amendments or modifications which are necessary and proper to effect the Project Modification provided that the Authority receives all written consents of any and all parties whose consent is required under the applicable documents and all other conditions to such amendments set forth in Section 8.01 and Section 5.06 of the 2007 D Indenture are satisfied and the Authority and the Trustee receive an opinion from Bond Counsel to the effect set forth in Section 8.06 of the 2007 D Indenture.

Section 2. Authorization of Action by Officers. The Authority hereby authorizes the Chair, Vice Chair, Executive Director, Deputy Executive Director, Director of Project Management of the Authority, Secretary and any Assistant Secretary (each an "Authorized Officer") to: (a) execute and attest and deliver the First Supplement and Lease Amendment No. 1 in substantially the forms attached hereto with such changes as are approved by the Authorized Officer executing the same and further authorizes the Authorized Officers to execute and attest and deliver all other necessary and proper amendments of documents relating to the 2007 D Bonds in the forms approved by the Authorized Officer or Authorized Officers executing such amendments and other agreements, consents, documents and instruments, in each case such execution to be conclusive evidence of the approval thereof, under the official common seal of the Authority, if necessary, to reflect the Project Modification, and (b) take any and all such other actions as may be necessary or appropriate in connection with the Project Modification.

Section 3. Effective Date. This Resolution shall take effect in accordance with the provisions of *N.J.S.A.* 18A:72A-4(i).

THIS FIRST SUPPLEMENT DATED AS OF FEBRUARY 1, 2010 (THE "FIRST SUPPLEMENT") BETWEEN THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY (THE "AUTHORITY") AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE (THE "TRUSTEE") TO THE TRUST INDENTURE DATED AS OF APRIL 1, 2007 BETWEEN THE AUTHORITY AND THE TRUSTEE RELATING TO \$117,795,000 ORIGINAL AGGREGATE PRINCIPAL AMOUNT OF NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY REVENUE BONDS, KEAN UNIVERSITY ISSUE, SERIES 2007 D (THE "2007 D INDENTURE") IS ENTERED PURSUANT TO SECTION 8.01 OF THE 2007 D INDENTURE.

WHEREAS: The New Jersey Educational Facilities Authority (the "Authority") was created as a public body corporate and politic of the State of New Jersey pursuant to the New Jersey Educational Facilities Authority Law (being Chapter 72A of Title 18A of the New Jersey Statutes, as amended and supplemented), *N.J.S.A. 18A:72A-1 et seq.* (the "Act"); and

WHEREAS: On April 13, 2007, the Authority issued its Revenue Bonds, Kean University Issue, Series 2007 D Bonds in the original aggregate principal amount of \$117,795,000 (the "2007 D Bonds") pursuant to the Act, a Resolution of the Authority adopted on February 28, 2007 and the 2007 D Indenture for the purpose of financing a project (the "Series 2007 D Project") consisting of: (i) various capital projects, including the construction of two new residence halls containing a combined total of approximately 850 beds, together with a 300 seat dining facility; and an approximately 700 car multilevel parking deck; (ii) the payment of capitalized interest on all of the Series 2007 D Bonds; and (iii) the payment of the costs of issuance of the Series 2007 D Bonds all as presented, submitted and approved by The Board of Trustees of Kean University (the "University" or "Public College"); and

WHEREAS: the University entered into a Lease and Agreement dated as of April 1, 2007 with the Authority to secure repayment of the 2007 D Bonds (the "2007 D Lease"); and

WHEREAS: Pursuant to Section 2.07 of the 2007 D Lease the scope of the Series 2007 D Project may be increased or changed upon the mutual agreement of the Authority and the University; and

WHEREAS: The University is nearing completion of the Series 2007 D Project and requested the Authority to modify the scope of the Series 2007 D Project to permit the use of the remaining proceeds of the 2007 D Bonds for certain expenses to be incurred in connection with (i) the development of new, revenue-generating faculty housing, (ii) a new emergency access road to serve the undergraduate residence halls, and (iii) the development of academic instructional facilities (the "Project Modification"); and

WHEREAS: By Resolution adopted on December 4, 2010 and attached hereto as Exhibit A, the University authorized the Project Modification; and

WHEREAS: By Resolution adopted on January 25, 2010 and attached hereto as Exhibit B, the Authority authorized the Project Modification; and

WHEREAS: Section 8.01 of the 2007 D Indenture permits supplements to the 2007 D Indenture for the purpose, *inter alia*, of amending the scope of the Series 2007 D Project; and

WHEREAS: Pursuant to Section 8.01 of the 2007 D Indenture any such supplement shall take effect upon filing a copy of such supplement certified by an Authorized Officer of the Authority (as such term is defined in the 2007 D Indenture) with the Trustee and the Public College.

IN CONSIDERATION OF THE FOREGOING AND OTHER GOOD AND VALUABLE CONSIDERATION THE PARTIES AGREE AS FOLLOWS:

1. The 2007 D Indenture is amended by amending the term "Series 2007 D Project" therein in its entirety to mean "a project consisting of: (i) various capital projects, including the construction of two new residence halls containing a combined total of approximately 850 beds, together with a 300 seat dining facility, and an approximately 700 car multilevel parking deck; (ii) the development of new, revenue-generating faculty housing, (iii) construction of a new emergency access road to serve the undergraduate residence halls; (iv) the development of academic instructional facilities; (v) the payment of capitalized interest on all of the Series 2007 D Bonds; and (vi) the payment of the costs of issuance of the Series 2007 D Bonds all as presented, submitted and approved by the University."
2. Section 4.03 (c) is amended by adding the following sentence at the end thereof: "Notwithstanding anything in this Indenture to the contrary disbursement of any proceeds of the Series 2007 D Bonds for any portion of the Project Modification that is non-revenue producing shall be conditioned upon receipt by the Authority of the approval required by the State Legislature under N.J.S.A Section 72A – 27.3."
3. By executing this First Supplement, the Trustee will be giving its written consent to this First Supplement.
4. In accordance with Section 8.01 of the 2007 D Indenture, this First Supplement shall be effective upon filing a copy certified by an Authorized Officer of the Authority with the Trustee and the Public College.
5. This First Supplement may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute but one instrument.

IN WITNESS WHEREOF, THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY HAS CAUSED THIS FIRST SUPPLEMENT TO THE 2007 D

INDENTURE TO BE SIGNED IN ITS NAME BY ITS DULY AUTHORIZED OFFICER AND U.S. BANK NATIONAL ASSOCIATION IN TOKEN OF ITS ACCEPTANCE OF THE TRUSTS CREATED HEREUNDER, HAS CAUSED THIS INDENTURE TO BE SIGNED IN ITS CORPORATE NAME BY ONE OF THE OFFICERS THEREUNTO DULY AUTHORIZED ALL AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

**NEW JERSEY EDUCATIONAL
FACILITIES AUTHORITY**

By: _____
James S. Poole
Executive Director

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

By: _____
Authorized Officer

Acknowledged and Accepted:

KEAN UNIVERSITY

By: _____
Phillip Connelly
Vice President for Administration
and Finance

[Signature Page to First Supplement to the 2007 D Indenture]

THIS AMENDMENT NO. 1 TO THE LEASE AND AGREEMENT BY AND BETWEEN THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY (THE "AUTHORITY") AND THE BOARD OF TRUSTEES OF KEAN UNIVERSITY DATED AS OF APRIL 1, 2007 RELATING TO THE SERIES 2007 D PROJECT IS ENTERED INTO AS OF FEBRUARY 1, 2010 ("FIRST AMENDMENT")

WHEREAS: The New Jersey Educational Facilities Authority (the "Authority") was created as a public body corporate and politic of the State of New Jersey pursuant to the New Jersey Educational Facilities Authority Law (being Chapter 72A of Title 18A of the New Jersey Statutes, as amended and supplemented), *N.J.S.A. 18A:72A-1 et seq.* (the "Act"); and

WHEREAS: On April 13, 2007, the Authority issued its Revenue Bonds, Kean University Issue, Series 2007 D Bonds in the original principal amount of \$117,795,000 (the "Series 2007 D Bonds") pursuant to the Act, a Resolution of the Authority adopted on February 28, 2007 and the 2007 D Indenture for the purpose of financing a project (the "Series 2007 D Project") consisting of: (i) various capital projects, including the construction of two new residence halls containing a combined total of approximately 850 beds, together with a 300 seat dining facility; and an approximately 700 car multilevel parking deck; (ii) the payment of capitalized interest on all of the Series 2007 D Bonds; and (iii) the payment of the costs of issuance of the Series 2007 D Bonds all as presented, submitted and approved by The Board of Trustees of Kean University (the "University" or "Public College"); and

WHEREAS: the University entered into a Lease and Agreement dated as of April 1, 2007 with the Authority to secure repayment of the 2007 D Bonds (the "2007 D Lease"); and

WHEREAS: Pursuant to Section 2.07 of the 2007 D Lease, the Series 2007 D Project may be increased or changed upon the mutual agreement of the Authority and the University; and

WHEREAS: The University is nearing completion of the Series 2007 D Project and requested the Authority to modify the scope of the Series 2007 D Project to permit the use of the remaining proceeds of the 2007 D Bonds for certain expenses to be incurred in connection with (i) the development of new, revenue-generating faculty housing, (ii) a new emergency access road to serve the undergraduate residence halls, and (iii) the development of academic instructional facilities (the "Project Modification"); and

WHEREAS: By Resolution adopted on December 4, 2010, the Board of Trustees of the University authorized the Project Modification; and

WHEREAS: By Resolution adopted on January 25, 2010, the Authority authorized the Project Modification; and

WHEREAS: It is necessary to amend the 2007 D Lease to reflect the Project Modification and pursuant to Section 12.05 of the 2007 D Lease, it may be amended with the written consent of the parties.

IN CONSIDERATION OF THE FOREGOING AND OTHER GOOD AND VALUABLE CONSIDERATION THE PARTIES AGREE AS FOLLOWS:

1. The 2007 D Lease is amended by replacing the description of the Series 2007 D Project in Exhibit B to the 2007 D Lease in its entirety with the following description:

“The Series 2007 D Project consists of: (i) various capital projects, including the construction of two new residence halls containing a combined total of approximately 850 beds, together with a 300 seat dining facility; and an approximately 700 car multilevel parking deck; (ii) the development of new, revenue-generating faculty housing; (iii) construction of a new emergency access road to serve the undergraduate residence halls; (iv) the development of academic instructional facilities; (v) the payment of capitalized interest on all of the Series 2007 D Bonds; and (vi) the payment of the costs of issuance of the Series 2007 D Bonds all as presented, submitted and approved by the Board of Trustees of Kean University.”

2. By executing this Amendment No. 1, the parties hereto evidence their written consent hereto.
3. This First Amendment shall be effective upon filing of an executed copy certified by an Authorized Officer of the Authority with the Trustee and delivery of any notices as required by the provisions of the 2007 D Indenture.
4. This First Amendment may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute but one instrument.

{REMAINDER OF PAGE INTENTIONALLY LEFT BLANK}

IN WITNESS WHEREOF, THE UNDERSIGNED HAVE CAUSED THIS FIRST AMENDMENT TO THE 2007 D LEASE TO BE SIGNED IN THE RESPECTIVE NAMES OF THE NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY AND THE BOARD OF TRUSTEES OF KEAN UNIVERSITY ALL AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

**NEW JERSEY EDUCATIONAL
FACILITIES AUTHORITY**

By: _____
James S. Poole
Executive Director

KEAN UNIVERSITY

By: _____
Phillip Connelly
Vice President for Administration
And Finance

Acknowledged and Accepted:

**U.S. BANK NATIONAL ASSOCIATION,
Trustee**

By: _____
Authorized Officer

[Signature Page to First Amendment of the 2007 D Lease]

_____ Mr. Petrecca _____ moved that the foregoing resolution be adopted as introduced and read, which motion was seconded by _____ Mr. Hutchinson _____ and upon roll call the following members voted:

AYE: Roger B. Jacobs
Ridgeley Hutchinson
Joshua Hodes
Andrew Sidamon-Eristoff (represented by Steven Petrecca)
Steven D. Weinstein (represented by Glenn Lang)

NAY: None

ABSTAIN: None

ABSENT: None

The Chair thereupon declared said motion carried and said resolution adopted.

**New Jersey Educational Facilities Authority
Board of Directors Meeting Held on
February 22, 2011**

**Kean University
Project Modification Executive Summary and Overview
New Jersey Educational Facilities Authority Revenue Bonds
Kean University Issue, Series 2007 D**

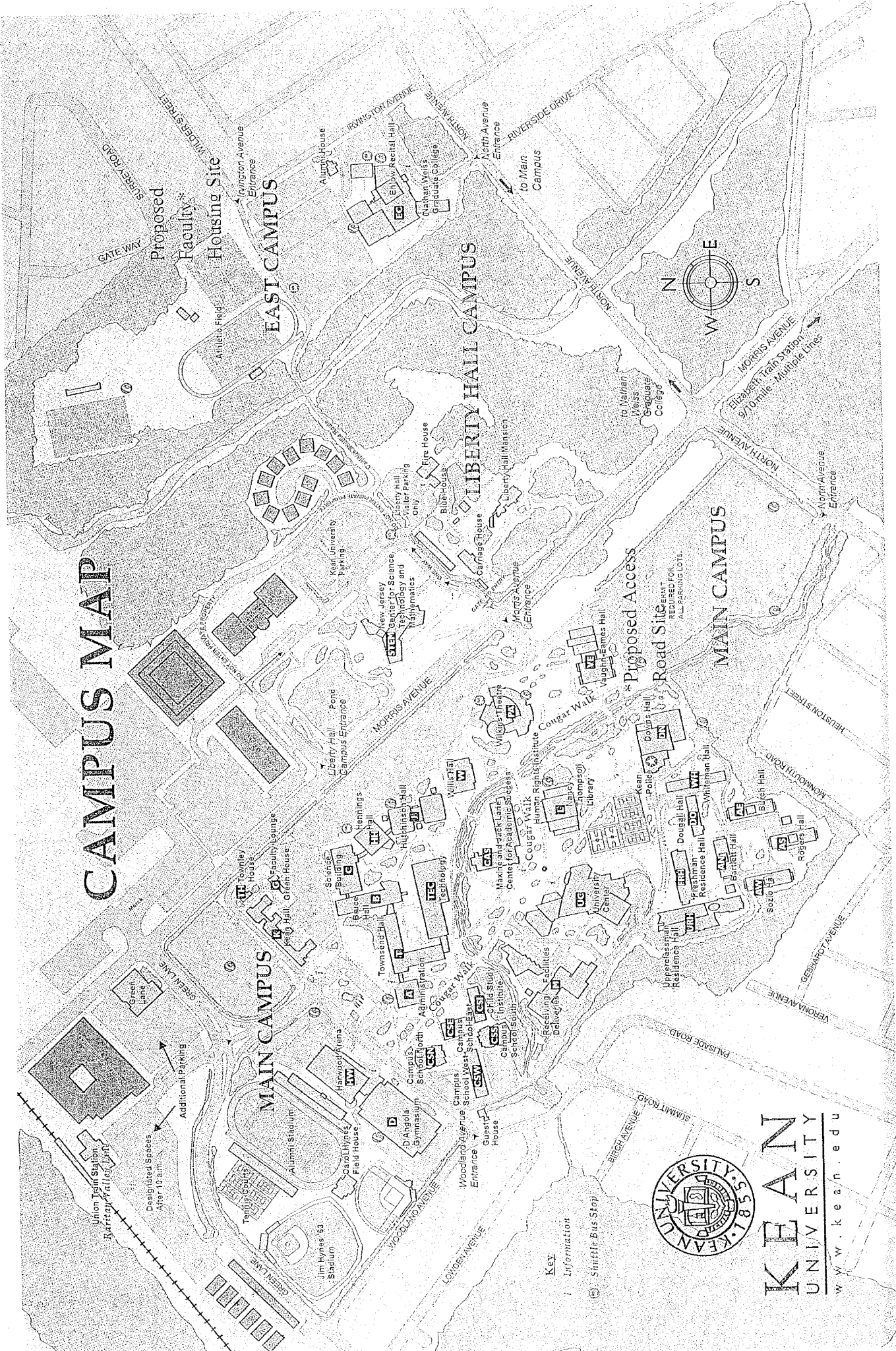
As the University is nearing completion of the 2007 D Project, which includes the construction of two new residence halls with a connecting dining facility and a multi-level parking deck, upon further assessment and re-evaluation, the administration has identified additional uses (the "Project Modification") for the remaining bond proceeds that serve a more integral role in the University's strategic plan and have a higher priority for the University. Subsequently, as part of this re-evaluation, the administration has made the determination not to proceed with the multi-level parking deck at this time.

The Project Modification consists of the following:

- Development of Faculty Housing located on the University's East Campus;
- Installation of an additional emergency service road to the residence hall area; and
- Development of additional instructional space

The Project Modification, as identified above, will utilize the balance of the remaining bond proceeds available.

CAMPUS MAP

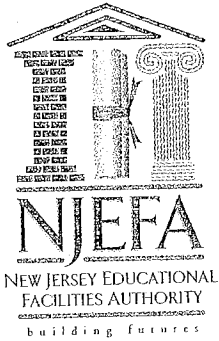


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TRANSACTION SUMMARY

Borrower:	Kean University, Union, New Jersey	
Issue:	2011 Tax-Exempt Equipment Lease Transaction	
Amount:	\$15,000,000	
Purpose:	The acquisition and installation of HVAC equipment for certain student residences on the University's campus	
Structure:	Fixed Rate, Tax-Exempt Equipment Leasing Program	
Lease Term:	February 15, 2021	
Interest Rate:	2.82%	
Successful Bidder:	Banc of America Public Capital Corp.	
Other Bidders and Interest Rate %:	Holman Capital Corporation	4.290%
	JP Morgan Chase Bank, N.A.	3.427%
	People's Capital and Leasing Corp.	3.339%
	TD Equipment Finance, Inc.	3.365%
Closing:	February 15, 2011	
Professionals on the Transaction:		
Bond Counsel:	McCarter & English, LLP	
Authority's Counsel:	Attorney General of the State of New Jersey	
Lessor:	Banc of America Public Capital Corp.	
Acquisition Fund Custodian:	Deutsche Bank National Trust	
Lessor's Counsel:	Susan Ariel, Esq.	

INDUSTRY OUTLOOK

2011 Outlook for U.S. Higher Education

Stable for Diversified Market Leaders; Negative for Majority of Tuition and State Funding-Dependent Universities

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The outlook expresses Moody's expectations for the fundamental credit conditions in the industry over the next 12 to 18 months and does not speak to the expected balance of rating changes during this timeframe.

Summary Opinion

For 2011, we have revised our outlook to stable from negative for diversified market-leading colleges and universities in the public and private sectors in the United States. These market leaders operate multiple revenue-generating business lines, insulating them against declines in any one revenue source. They have global reputations and attract strong student demand, philanthropic support, and research funding even during weak economic periods. This segment of the sector is comprised of a minority of rated colleges and universities that are generally rated in the Aaa and Aa categories. For the large majority of rated universities, we maintain a negative outlook. This larger segment is comprised of less diversified private and public universities that are most directly challenged by tuition pricing and state funding threats. This group typically has a more regional student draw, weaker pricing power, and less diversified revenues that are largely derived from a combination of student charges and state appropriations.

The most critical credit factors driving our outlook for U.S. higher education in 2011 are:

1. Weakened prospect for net tuition revenue growth causing market shifts favoring both lowest cost and highest reputation competitors
2. Differing degrees of pressure on non-tuition revenues placing a premium on business line diversity
3. Need for stronger management of operating costs, balance sheet risks and capital plans

We expect that aggregate demand for higher education will remain strong over the long-term and continue to grow globally, with colleges and universities providing positive economic benefits for their communities and states. The large majority of our rated higher education institutions have weathered the economic crisis quite well, demonstrating agility under stressful circumstances. However, many colleges and universities are facing significant tuition resistance and weak fundraising results for the first time in recent decades. Longer-term fundamental economic questions remain about the viability of many colleges, especially smaller ones. The reduced prospect for long-term net tuition revenue growth for both private and public universities, funding pressure on donors and state governments, and the need for careful management of debt structure and liquidity are critical credit factors driving our 2011 outlook. We expect that colleges and universities that benefit from diversified business lines, distinct brand name recognition, and strong management and governance practices will maintain the strongest credit profiles in coming years.

Mixed Outlook for U.S. Higher Education in 2011

For 2011, we have revised the outlook to stable from negative for a small portion of the U.S. higher education sector. This segment of diversified market leaders tends to be rated in the Aaa and Aa categories and is less reliant on student charges and state appropriations, with research, fundraising, endowment spending, and patient care often representing important components of core operations. Examples include large public university systems, flagship and land grant universities, leading private research universities, and wealthy highly selective liberal arts colleges. For some of these universities, patient-care is a significant component of operating revenue, with revenue generated by hospital ownership or affiliations and faculty practice plans. Although the not-for-profit health care sector has a negative credit outlook, most of the universities with sizeable health care exposure have relationships with large and thriving academic medical centers which are themselves far more diversified than community hospitals. These hospitals typically have a diverse payer mix, national reputations with multiple clinical specialties, healthy philanthropic support, and significant research activity.

Characteristics Associated with a Stable Outlook

- » Market leaders with top-ranked academic programs and global reputations supporting pricing power
- » Multiple business lines, typically with no one source accounting for more than 50% of revenue
- » Consistently strong demand from top quality students and faculty
- » Generous philanthropic support, low dependence on state funding, and diversified research funding
- » Strong balance sheet providing good support for debt and operations as well as ample liquidity

We maintain a negative outlook for both public and private universities which have less diverse operations and more revenue concentration. The less selective private colleges and universities that are highly dependent on student charges will be challenged in this economic environment to grow net tuition per student as they face heightened competition from lower cost higher education alternatives.

Public universities that are still highly dependent on state funding also face negative credit conditions. They tend to have a local or regional student draw, very limited financial reserves, and must focus heavily on more efficient operations as state funding declines across much of the nation due to the conclusion of federal stimulus funding in 2011. Collectively, these colleges and universities are typically rated in the A category and below and include smaller regional, less selective standalone colleges and universities, with student charges and/or state appropriations comprising the bulk of operating revenue.

Characteristics Associated with a Negative Outlook

- » Moderately selective to non-selective institutions with a more regional student draw
- » Moderate to very weak pricing power and more limited ability to grow net tuition
- » Less diversified business lines with heavy reliance on student charges and/or state appropriations often accounting for upwards of 60% of revenues
- » Small, if any, fundraising or research enterprises
- » Modest endowments or limited liquidity providing little support for operating budget and debt
- » Typically small or medium-sized enrollments and lack of economies of scale
- » Weakest colleges prone to consolidation, merger, acquisition, and even closing over the longer term if macroeconomic conditions do not improve

Strong Overall Demand for U.S. Higher Education Offset by Near- and Long-Term Key Credit Challenges

We expect that demand for higher education will remain robust over the long-term and continue to expand globally, but the boom period that characterized demand in the sector since the mid-1990s has ended. In light of ongoing economic uncertainty and related anxiety, universities are questioning the sustainability of their near- and long-range financial forecasts. Since the beginning of the Great Recession, the large majority of rated higher education institutions have made difficult decisions to improve operational efficiency—often disrupting capital plans and reducing staffing levels that had been built up over many years. This unheralded ability of colleges and universities to adjust to tough economic conditions is highlighted by the relative rating stability during 2008 through 2010, with rating affirmations comprising the large majority of rating activity during the past three years.

Looking ahead, it is also clear that the easiest efficiency measures have already been taken, and further adjustments will be more difficult to implement. While almost all institutions are affected by these challenges to a certain extent, we believe that some are far better positioned than others to respond, which is why we have a mixed outlook for 2011.

Negative Outlook for Independent K-12 School and Other Not-for-Profit Sectors

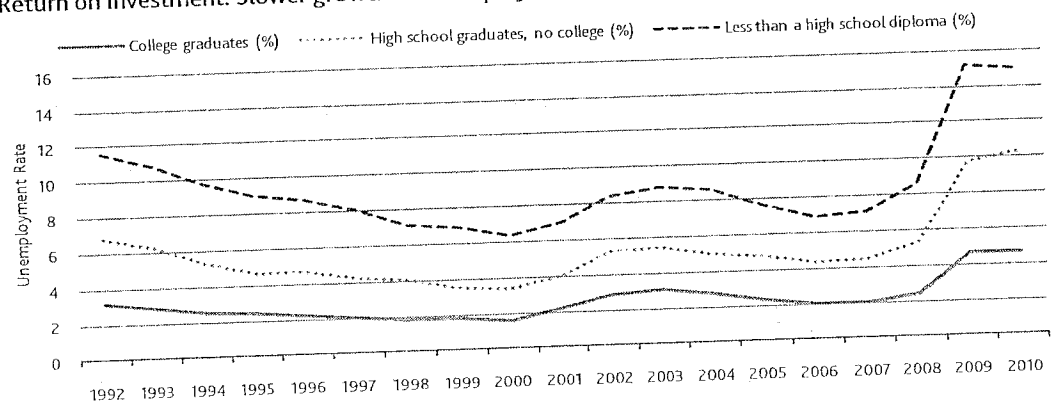
Both the independent K-12 school and the diversified not-for-profit organization sectors share some credit characteristics with higher education. To varying degrees, many of these debt issuers rely on philanthropy, endowment earnings, government funding, student tuition, or research grants. During fall 2010, we published updated median reports for the independent K-12 sector and the diverse Not-for-Profit sector (excluding health care and higher education borrowers), comprised of cultural institutions, research organizations, service/advocacy entities, philanthropic foundations, and others.

For 2011, we maintain a negative outlook for these two sectors. We expect that the private K-12 schools will face many of the same challenges as the higher education sector, most notably tuition pricing risk, competition from lower cost options, and pressure on philanthropy. Although the unique risks of the diverse not-for-profits will vary by sub-sector, most will be challenged to continue to grow admission, membership, and/or gift and grant revenue. Those that are heavily endowment-dependent will be challenged to adjust their budgets to incorporate reduced endowment draws. For the most recent medians data, refer to "Independent K-12 School Medians for Fiscal Year 2009" (November 2010) and "U.S. Not-for-Profit Organization Medians Present Mixed Picture" (December 2010).

Critical Credit Factor #1: Weakened Prospect for Net Tuition Revenue Growth Causing Market Shifts Favoring both Lowest-Cost and Highest Reputation Competitors

We expect that long-term demand for higher education will remain strong despite weakened household wealth, higher unemployment and more discerning student demand favoring both low-cost as well as high-reputation universities. Our long-term view is supported by the demonstrated economic value of a postsecondary education degree, demographic forecasts for the projected number of high school graduates growing over the next decade, and strong international demand for U.S. universities. With the unemployment rate not projected to decline substantially in the near-term, data showing the unemployment rate by educational attainment supports the argument that post-secondary education remains a worthwhile investment. Figure 1 highlights not only the consistently higher unemployment rate in the U.S. for those without a college degree, but also the steeper increase in the unemployment rate for that segment of the population over the past three years.

FIGURE 1
Return on Investment: Slower growth of unemployment rate for college graduates



Source: U.S. Bureau of Labor Statistics

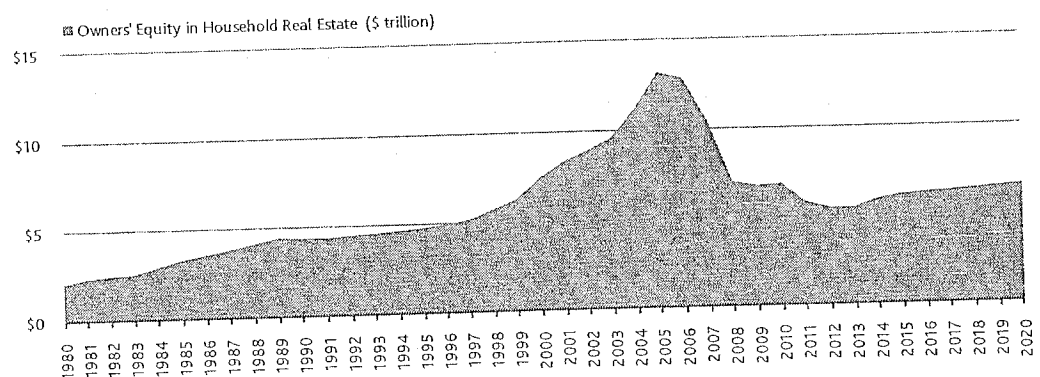
Furthermore, the Obama administration is focused on significantly increasing the U.S. higher education participation and graduation rates by 2020, including growth of non-traditional age and part-time student populations. Although we expect that overall demand for higher education will remain strong, we are already beginning to see clear trends of shifting demand across the sector, driven largely by price sensitivity, a more diverse student population, a changing workforce with evolving educational prerequisites, and the development of new educational delivery formats, including rapid growth of online education and distance learning models.

Despite strong application volume and enrollment stability across the sector through fall 2010, pressure on net tuition revenue growth is a key credit challenge, particularly for those facing significant competition from lower cost alternatives or political and public pressure to limit tuition increases and growth of student debt. Families, increasingly sensitive to their own financial pressures, are carefully evaluating available financial aid packages, student loan options, and the predictability of future tuition increases in making decisions as educated consumers. We believe that institutions which can clearly demonstrate the value of their product in the market and have the operational flexibility and motivation to adjust, including revenue enhancement and expense containment, will be best positioned to succeed.

Lagged Impact of Declines in Family Home Equity and Net Worth on Tuition Growth

The sharp decline in household net worth, including home equity, over the past three years is a key driver for increased price sensitivity in making higher education selection decisions. As demonstrated in the chart below, home equity values remain depressed, and Moody's Analytics projects prolonged weakness in the housing market, with home equity levels not projected to begin growing until 2012, but likely remaining well below peak levels for a decade or more. This sustained decline of home values will continue to impact the higher education sector for years to come by preventing some families from using their homes as collateral to borrow to cover the rising cost of attending college. In addition to relying on scholarships, accumulated savings, and annual personal income, many families utilize home equity loans and lines of credit in order to pay for college tuition.

FIGURE 2
Sharp Decline in Home Equity will be Persistent Drag on Ability to Borrow for High Tuition Costs

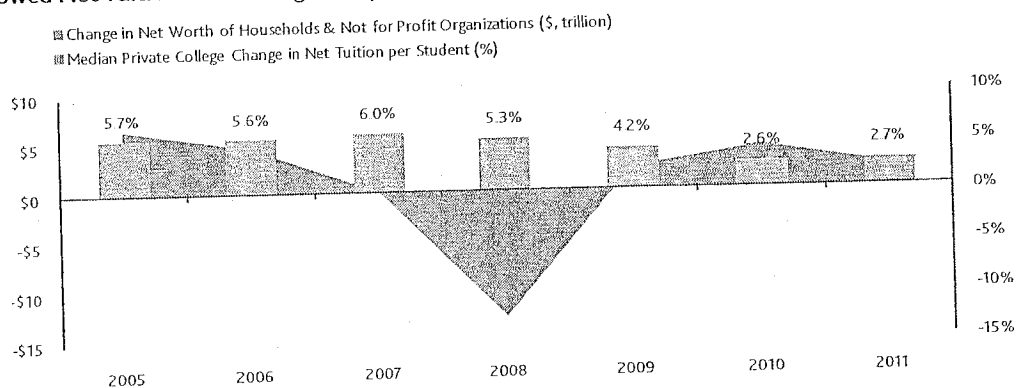


Source: 1980-2010, Federal Reserve Statistical Release, Flow of Funds Accounts of the U.S.; 2011-2020 Forecast, Moody's Analytics

Despite depressed home values and the low probability that peak levels will be recovered even over the next decade, overall family net worth has resumed growth from its most depressed levels of 2009. This is largely a result of recent positive performance of the stock market. Signs of growth in personal

investment portfolios have relieved some near-term anxiety. After sharp stock market declines in 2001 and 2002, resumed growth of family net worth in 2003-2007 supported robust growth of net tuition per student. Figure 3 displays private university median growth of net tuition per student in 2005-2008, over 5% annually. There is a logical relationship between household net worth, student demand, and tuition pricing for private colleges, in particular, although the effects are lagged. Private higher education for many families is a preferred investment, but also one subject to changes in financial net worth. The sharp decline in family net worth in 2008 has continued to trigger decelerated growth of net tuition revenue.

FIGURE 3
Slowed Net Tuition Growth Lags Steep Decline in U.S. Net Worth



Source: Change in Net Worth: 1980-2010, Federal Reserve Statistical Release, Flow of Funds Accounts of the U.S., 2011 Forecast Moody's Analytics; Median Net Tuition per Student: Moody's, 2010 and 2011 net tuition per student data estimated based on 2010 annual tuition survey responses

Increased price sensitivity has required both private and public universities to re-evaluate multi-year tuition increase assumptions and evaluate the potential price "ceiling" for different types of institutions and degrees. Ongoing federal scrutiny, public debate, and household resistance to an increasing cost of higher education are not expected to subside near-term.

As highlighted in our recently released tuition and enrollment survey of rated colleges and universities¹, the large majority of survey respondents reported growth of net tuition revenue in FY 2010 as well as a projection for further growth in FY 2011. However, 15% of private university survey respondents in this year's survey reported declining net tuition revenue in FY 2010, much higher than the roughly 3% to 5% that annually experienced declines prior to 2009. For public university respondents, net tuition growth was strong in FY 2010 (median increase of 11%), but this pace of growth is not expected to be maintained due to political pressures to limit both tuition increases and out-of-state student enrollment.

Premier Private Institutions Benefit from Robust Demand and Pricing Power

We believe that the most selective, highest-rated private institutions (broadly, but not exclusively, Aaa and Aa-rated) will maintain the student demand and pricing power to be able to grow tuition at the fastest rates, should they choose to do so. Generally, these institutions include the Ivy League and other globally reputable research institutions, top-tier liberal arts colleges, and other highly selective institutions which draw students nationally and internationally. Although some have seen marginal shifts in application volume, their student demand remains remarkably strong and is likely understated

¹ "Tuition Challenges Continue for Many U.S. Universities, but Majority Forecast Growth," (December 2010)

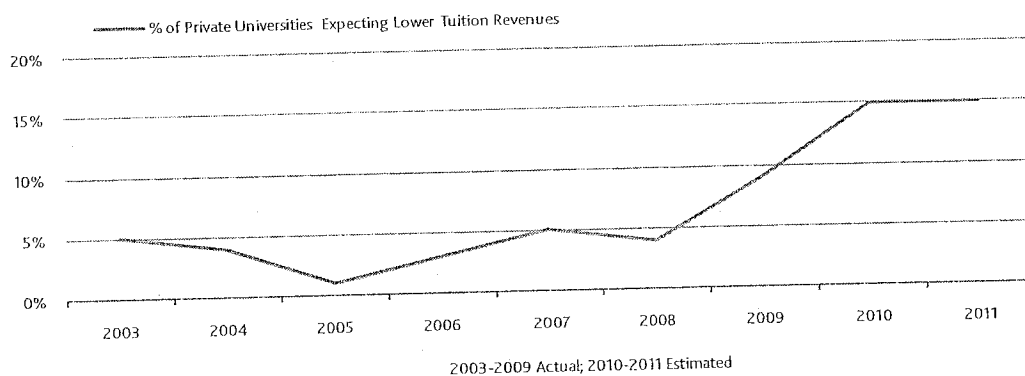
since many academically strong students may not apply due to the low probability of being admitted. In fact, some have chosen to expand their student enrollment modestly in order to generate additional net tuition revenue without jeopardizing student quality, selectivity metrics, or the on-campus student experience.

Despite their inherent market strength, many colleges and universities in this segment are choosing not to maximize their pricing power by admitting more qualified full-pay students. Rather, some are choosing to lessen the growth of, or even accept an absolute decrease in, net tuition per student due to their commitment to admit top students regardless of income. These universities have the largest endowments within the sector and many are choosing to expand financial aid budgets and attract a more diverse student body, creating an increased need for financial aid. This willingness to shape a more socioeconomically diverse enrollment by using more financial aid reflects their not-for-profit mission and is more voluntary than driven by economic market forces per se. Our 2010 tuition survey highlights this trend, with private college and university respondents rated A1 and above projecting a median 2.7% increase in net tuition revenue in FY 2011. In contrast, private university survey respondents rated below A1 project a stronger median 4.8% net tuition increase in FY 2011.

Although we expect a slower pace of net tuition revenue growth across the sector compared to earlier years, our 2010 enrollment and tuition survey revealed more optimism for this year's respondents compared to last year. Figure 4 highlights the higher share of private universities that are estimating a decline in net tuition revenue in FY 2010 and 2011 compared to actual results for prior years.

FIGURE 4

Increased Pressure on Net Tuition Revenue Growth



Source: Moody's 2010 Survey of U.S. Higher Education

Most Private Institutions Face Increased Tuition Pressure and Intense Competition from Publics, but Can Thrive with Strong Leadership

We remain cautious about the long-term prospects for enrollment stability and net tuition revenue growth for the lower-rated private colleges (many rated in A and Baa categories) which often have smaller enrollments, more regional student draw, thinner endowments supporting financial aid initiatives, and significant competition from lower-priced public higher education alternatives. These institutions are the most heavily dependent on student charges, with tuition and auxiliary revenues representing a median 74% of operating revenue of A-rated privates and nearly 85% of operating revenue of Baa-rated privates in FY 2009. Median net tuition per student for this portion of the sector has grown at a rapid rate in recent years and is quite high, especially when compared to public options.

Our rated portfolio includes a small proportion of the weakest private colleges that face heightened risk in the coming years. Outside of our rated portfolio, there are hundreds of unrated small private colleges, with very thin financial reserves and enrollment under 1,000 students. In recent years, there has been a small increase in these challenged institutions going out of business or being acquired by larger organizations, including for-profit entities. Over the coming decade, it is likely that this trend will accelerate, barring a return to robust macroeconomic conditions.

Although total application volume in the sector remains healthy, allowing private colleges and universities to become increasingly selective, we believe the selectivity improvement is partly artificial, and masks the underlying challenges, because the improved selectivity principally reflects the trend of students applying to a larger number of colleges. Yield rates (matriculation) at private colleges and universities have declined over the past five years, highlighting increased competition. In fact, nearly 60% of private institutions rated below A1 have matriculation rates lower than 20%. This segment of the market is increasingly competing with lower-cost public colleges and universities and feeling the most pressure to limit tuition increases and expand financial aid budgets.

We expect the most credit pressure for those private colleges and universities which attract students largely from one state and are located in regions where the regional or state economy is particularly challenged, home values have declined steeply, and/or the number of high school graduates is projected to flatten or decline. As some public universities have invested in the development of honors colleges, more attractive academic and auxiliary facilities, and other amenities, these private colleges will be most challenged to demonstrate their market niche and the value of their product in order to attract high quality students.

Regardless of the macro threats to small private colleges, many will still thrive under more difficult market conditions because of strong management and governance. These organizations tend to be more nimble and entrepreneurial than is generally realized, and some are adapting new technology, entering new partnerships, expanding into new markets, and encouraging faculty to be more productive. Typically, successful private colleges are led by diversified and experienced management teams and effective boards that provide strong guidance and oversight. For more discussion of governance and management, see our recent comment, "[Governance and Management: The Underpinning of University Credit Ratings](#)" published in November 2010.

Ongoing Scrutiny of For-Profit Higher Education Could Foreshadow Greater Oversight for All
Increased federal scrutiny of for-profit universities is tightly aligned with very rapid enrollment and revenue growth in this sector and high reliance on federal financial aid as a revenue source. This increased political scrutiny and media coverage of the for-profit sector may spill over to the traditional not-for-profit colleges and universities. We anticipate longer-term growth of political and regulatory interest in higher education tuition rates, rising student debt, and tax-favored endowments. We expect policy debate to intensify on these topics and anticipate a growing demand for increased transparency and disclosure and measurement of educational outcomes, by a variety of stakeholders. For further discussion on this topic, please refer to "[Scrutiny of For-Profit Universities May Signal Opportunity for Some Traditional Colleges, but Higher Regulatory Costs for All](#)" (August 2010).

Public Universities: Mixed Results as Leeway in Tuition Setting and Out-of-State Recruitment Varies by State

While lower-priced public colleges and universities may have the student demand and competitive pricing to increase tuition, some states have tied the hands of public higher education institutions by imposing limitations on annual tuition increases and recruitment of higher paying students from outside of the state, particularly for the undergraduate student body. Most states allow more leeway in recruitment and tuition-setting for graduate and professional programs, compared to undergraduate programs. And, while public universities have benefited from strong student demand and robust enrollment growth in an era of increased price sensitivity, public universities are increasingly engaged in heavy competition. For example, community colleges have witnessed explosive enrollment growth, in some cases siphoning students away from the four-year public institutions for the first two years of college. Public universities also face growing competition from the for-profit sector, which tends to attract a more diverse student body and offers more flexible course schedules to accommodate adult and working students.

As described above, results of our recently released tuition survey highlight healthy net tuition revenue growth at most public universities in FY 2010. Public universities have especially benefited from a sharp increase in Pell awards, with the American Recovery and Reinvestment Act (ARRA) providing \$17.1 billion in funding for Pell Grants (Federal grants of need-based aid for low-income students).² In 2010, Pell Grant expenditures increased 58% over 2009 and the number of Pell Grant recipients spiked 26% in just one year. However, uncertainty remains about future financing for the Pell Grant program and the possibility of future pressure on the maximum award amount, given competing priorities within the federal budget and a new Congress likely more focused on spending cuts.

Tuition pricing flexibility has become a more recent challenge for many public universities. Public university tuition survey respondents foreshadow signs of pessimism about the pace of future tuition growth. In fact, approximately 19% of public university survey respondents project flat to declining net tuition revenue in FY 2011. Net tuition revenue growth is limited by both internal and external constraints, including a mission of accessibility and affordability, an increasingly diverse student body including more students who are the first in their families to attend college, and growing demand for financial aid support.

In recent years, some states have directly imposed caps on tuition increases, either through permanent statutory limitations on tuition increases or, in some cases, temporary compromises for low tuition increases at the public universities in exchange for replacement dollars from the state. However, some states are re-evaluating or lifting these limitations in certain circumstances, in light of declining state appropriations. Some notable examples include Florida and Louisiana, which had tight constraints on tuition setting in the past and recently have allowed increased tuition setting flexibility. A reform panel in New Jersey recently recommended that tuition caps on public universities, imposed last year, be lifted to allow more operating flexibility for the universities. In other cases, tuition-setting flexibility has been harder to win. In early 2010, New York's governor proposed a change that would have increased tuition setting flexibility at the State University of New York and the City University of New York and would have removed tuition-setting from the state's budget process.³ The act was not passed. Further, university systems are trying to better define the targeted markets across their campuses and price themselves accordingly. For instance, the University of Missouri System is considering decoupling base undergraduate tuition for the first time across its multiple campuses in fall 2011 in order to respond to different student markets served.

² "Trends in Student Aid 2010," College Board

³ "New York Proposal Would Deregulate Tuition at One of Nation's Largest Universities," Moody's, June 2010

Critical Credit Factor #2: Differing Degrees of Pressure on Non-Tuition Revenues Placing a Premium on Business Line Diversity

In addition to longer-term pressure on the ability to grow student charges, the economic recession has challenged other revenue streams, including state appropriations, fundraising, research funding, and patient-care related revenue. We believe the largest and wealthiest institutions remain the best poised to withstand these pressures, as they typically have research enterprises, strong balance sheets, long histories of robust fundraising weathering economic cycles, and good operational diversity. Higher education institutions which own large hospitals or faculty practice plans, particularly those which have more exposure to government payers or which could be more negatively impacted by the implementation of federal health care reform, will face additional challenges.

State Appropriations: Public Universities Must Absorb Further Cuts in State Funding and the End of ARRA Money

Pressure on state appropriations to higher education is a chief credit challenge faced by the large majority of public colleges and universities over the next five years, as states grapple with a reduction in tax receipts, an increase in service demand, and depletion of accumulated reserves due to the recession. In many states, this budgetary pressure has resulted in a reduction of higher education funding.

The infusion of ARRA funding in FY 2009-2011 has moderated a potential period of sudden operational stress and eased public universities in many states toward the new reality of lower levels of government funding. The best managed universities used this additional time to reduce expenses, improve operational efficiencies, and focus on alternative revenue generation. With the results of the recent political elections, we expect state funding cuts to deepen across much of the U.S. as states work to balance their own budgets. For example, the large and highly rated university systems in California are likely to have their state operating support cut under budget proposals of newly elected Governor Brown. However, we expect the universities to be able to adapt to this loss of operating support largely by raising tuition, increasing out-of-state students, and achieving new spending efficiencies of their own. Further, some states are re-evaluating their funding frameworks for higher education, for example considering moving from an enrollment-based funding formula to a more performance-based model of institutional support incorporating college-completion rates and other measures of academic success. Future cuts in state funding and revamping of funding frameworks will need to be evaluated on a state-by-state and institution-by-institution basis.

Although state funding cuts have been steep starting in FY 2009, and the share of state funding for public universities has declined for decades, state funding to higher education actually increased in the last decade. State fiscal support for higher education, including only state tax appropriations for higher education, increased 15.3% between FY 2005 and FY 2010, as highlighted in Figure 5 below, with only nine states experiencing a decline in funding over this timeframe. Although median state appropriations per student of \$7,363 in FY 2009 declined from FY 2008, this figure represents an increase compared to \$6,641 of median state appropriations per student in FY 2005.

FIGURE 5

Percent Changes in State Fiscal Support for Higher Education

	1 Year % Change, FY 2009-2010	2 Year % Change, FY 2008-2010	5 Year % Change, FY 2005-2010
State Tax Appropriations Only	-3.4%	-6.7%	+15.3%
Sum of State Tax Appropriations, Other State Monies Devoted to Higher Education and Federal Stimulus Funds (in FY09 & FY10)	-1.1%	-1.7%	+21.9%

Source: Grapevine FY 2009-2010, produced by Illinois State University's Center for the Study of Education Policy in cooperation with the State Higher Education Executive Officers (SHEEO)

Reliance on government appropriations has declined over the past five years as public universities have become increasingly market driven, and we expect this trend to continue. Based on our FY 2009 medians report, rated public universities (excluding community colleges) relied on government appropriations for a median 30% of operating revenue in FY 2009, compared to a higher 33% in FY 2005. The higher reliance on state support by the smaller regional publics is exemplified by the median data, with state support representing a median 20% of operating revenue for Aa1-rated publics in FY 2009, compared to nearly 32% for A1-rated public universities. We believe that the largest institutions, which generally benefit from more diverse operating bases and greater economies of scale, will fare the best. Smaller regional public colleges and universities will be more challenged because they are typically more heavily dependent on state operating support, less able to achieve operational efficiencies, and face the most competition from community colleges.

Delays in cash funding of appropriations to public universities in particular states, such as Illinois and Arizona, have placed credit pressure on their public universities. The implementation of late in the year surprise cuts in state funding has also created stress, as institutions do not typically have enough time to reduce expenses or implement an offsetting tuition increase in response. In these situations, we have focused on each individual university's available liquidity (both internal reserves and available external bank liquidity) to provide a bridge during the delinquency in the state's payment. We also evaluate longer-term liquidity projections and troughs in unrestricted cash and investments throughout the year relative to the size of the university's expense base.

Fundraising: Philanthropy Declines, but Still a Significant Credit Strength for the Sector

Not surprisingly, declines in home equity and personal net worth have negatively impacted not-for-profit fundraising programs, with major donors more hesitant to commit to long-range, large-scale gifts. Total estimated charitable giving in the U.S. declined 3.6% in 2009 (3.2% decline when adjusted for inflation), according to Giving USA Foundation.⁴ Some universities have recently reported instances of extended capital campaign timelines, slowed growth of new gifts and pledges, and some very specific examples of donors requesting more time to pay on pledges or in some rare cases write-offs of large pledges.

Although fundraising is more challenging for most, we believe that philanthropy and donor loyalty remain key positive credit factors for the U.S. higher education sector, distinguishing it from the rest of the municipal market. Giving USA estimates total charitable giving in the U.S. at a very high \$303 billion in 2009, with educational institutions receiving 13% of the total. Although fundraising has declined in recent years in response to the broader economy, we expect it to stabilize, perhaps at a new lower level, but to remain a strong revenue source for the higher education sector overall. Although donor priorities may shift (financial aid vs. capital, for example), the largest private and public colleges

⁴ "The Annual Report on Philanthropy for the Year 2009," Giving USA Foundation, The Center on Philanthropy at Indiana University

with well established fundraising programs are expected to maintain healthy gift flow, helping to support strategic priorities and serve as a revenue diversifier.

Research Funding: Flattening of Federal Research Funding Creates Heightened Competition for Grants and Advantages for Market Leaders

Although the infusion of ARRA funding for research created a temporary increase in available federal research funding, overall federal research funding has leveled off and become increasingly competitive to secure. We expect that the largest, nationally prominent research universities and independent research organizations will be best positioned to increase grant submission volume and win rates and secure multi-year funding. These organizations' strong market positions attract top faculty and typically more diversity of research funding sources. Further, these top-tier research institutions may benefit from further revenue diversification, as they invest in research commercialization and growth of technology transfer revenue. We expect that smaller organizations hoping to expand their research enterprises will be much more challenged in this environment to attract and retain top researchers and grow their research enterprises.

Endowment Spending: Wealthiest Institutions Most Affected by Reduced Endowment Draws, but Have Compensating Credit Strengths

Past endowment losses are now more fully impacting endowment spending rates, with most endowment draws incorporating a component that is based on multi-year lagged endowment valuations. Pressure on endowment draws impacts the wealthiest private colleges and universities most significantly, with some of these institutions relying on investment spending for more than a third of their annual operating revenue. While these operating revenue losses are disruptive to budgets and have forced unprecedented layoffs at some premier universities, credit position has remained largely stable among this group due to their diversified credit strengths.

Smaller private institutions and public universities tend to rely on the endowment draw for a modest proportion of their annual revenues and have had their annual budgets impacted on a much smaller scale than larger private universities. In our opinion, heavily endowment-dependent not-for-profits have responded briskly to scale back expenses to compensate for current and future reduced endowment draws. For the most part, we do not expect to see dramatic pressure on operating performance for these endowment-dependent institutions, as they have focused on expense containment, including creating leaner administrative structures, increased centralization of processes, offering of voluntary retirement programs, and in some cases consolidation or elimination of academic programs.

Patient-Care Revenue: Pressure on Patient Volumes and Reimbursement Rates Negatively Impacts Health Care Operations; Leading Academic Medical Centers Better Positioned

For universities which own hospitals, clinics, or faculty practice plans, we expect ongoing pressure on health care operations and increased requirement of management oversight. Flat to declining patient volume trends, growing levels of uncompensated care, pressure on payer reimbursement rates (particularly government payers), and the uncertain impact of health care reform remain key credit challenges for the health care sector. Moody's rated hospitals have experienced greater credit pressure and rating volatility since the beginning of the credit crisis than colleges and universities. While we expect that small single site hospitals in demographically weak regions will be the most challenged to improve operational efficiencies and negotiate with payers, larger academic medical centers are typically better positioned, because they offer unique, high-end services that community hospitals do not. They also have a more diversified revenue base, including philanthropy and research grants, as well as a working relationship with and potential longer term support from affiliated universities.

Critical Credit Factor #3: Need for Stronger Management of Operating Costs, Balance Sheet Risks, and Capital Plans

With endowments benefiting from positive investment returns in FY 2010, most endowments regained some of the value that was lost during FY 2008 and 2009. However, financial resources, for the most part, remain depressed, resulting in increased balance sheet leverage, reduced endowment spending available for operations, and a weaker cushion of financial resources to support operating expenses. Further, the adoption of UPMIFA (Uniform Prudent Management of Institutional Funds Act) and associated financial reporting requirements in most states resulted in the reclassification of unspent investment gains and a decline in unrestricted financial resources over the past two years. Further, post-retirement health benefits (OPEB) are quite large in certain states and a small number of public universities have large pension liabilities, further depressing net assets. As the size of these post-employment liabilities grow over time, we will continue to monitor development of long-range funding strategies and the institutional ability and willingness to curtail or revamp the benefit plans.

Private and public university medians for FY 2009 highlighted this sharp drop off in balance sheet strength. For FY 2010, we anticipate capital and balance sheet ratios will improve although not back to FY 2007 levels.

FIGURE 6

Decline in Balance Sheet Strength in FY 2009 for Both Public and Private Universities

Moody's Private University Medians	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Expendable Financial Resources to Debt	1.5x	1.7x	1.9x	1.7x	1.0x
Expendable Financial Resources to Operations	1.1x	1.2x	1.3x	1.2x	0.7x
Moody's Public University Medians	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Expendable Financial Resources to Debt	1.0x	0.95x	1.1x	0.99x	0.79x
Expendable Financial Resources to Operations	0.41x	0.45x	0.49x	0.46x	0.38x

Liquidity and Investment Management: Institution Wide Assessment of Sources and Uses of Liquidity is Key Challenge

For FY 2009, we launched a new set of liquidity ratios which mesh accounting restrictions with investment strategies and provides more transparency of available liquidity, beyond the data provided within the audited financial statements. Some of the key findings are highlighted in Figure 7, and a more elaborate review of the liquidity data will be included in an upcoming special comment. The credit crisis which began in the fall of 2008 was a "wake up call" for all and redirected attention to the importance of adequate liquidity management and the need to develop an integrated "sources and uses" approach to liquidity. However, for the largest endowments which tend to be avid investors in less liquid investment strategies, we have not seen a wholesale shift in asset management or investment allocations. We expect that large endowments will continue to use alternative investments, including hedge funds, private equity, real estate, and others, to diversify their portfolios and strengthen returns.

FIGURE 7

Key Higher Education Liquidity Findings:

For the large majority, accounting or donor restrictions on assets is the key factor limiting liquidity, not restrictions in investment manager agreements.

Aaa- and Aa-rated private and public colleges are the most active investors in longer-term illiquid asset classes.

Public universities tend to have a larger proportion of their assets in more liquid asset classes than private universities.

Public universities' liquidity tends to provide stronger coverage for demand debt, partly due to limited use of variable rate debt.

Public universities' liquidity tends to provide weaker coverage of expense base (lower days cash on hand), reflecting larger expense bases and typically thinner balance sheets (with affiliated foundation assets excluded from our monthly liquidity calculations).

Debt Structure: Variable Rate Debt and Swap Risks Illuminated by the Credit Crisis

The credit crisis clearly illuminated the risks associated with variable rate debt and interest rate swap agreements and the importance of carefully evaluating counterparty exposure, covenants and terms across bank, bond, and derivative agreements. Much of the new debt issuance in the higher education sector during 2010 was issued with fixed interest rates, with universities generally averse to increasing variable rate exposure or expanding their swap portfolios. We expect this trend to continue in the near term as issuers are able to lock in attractive fixed interest rates. Although some universities have refinanced variable rate bonds with fixed rate debt in order to mitigate liability risk, others are reluctant to do so often as a result of outstanding swaps with large negative valuations which would require termination payments.

The unusually large wave of bank facility expirations scheduled during 2011 could be challenging for universities with variable rate debt. In particular, lower rated credits in our portfolio may encounter reduced availability of extensions and substitute liquidity facilities as well as more stringent terms and covenants in those new agreements. Strong demand for liquidity to support variable rate demand bonds in the public finance sector is met with a more limited supply of bank credit and liquidity support, as a result of bank consolidations and the potential implications of new financial legislation and Basel III banking regulations.

We expect that the highest rated issuers (Aaa and Aa) will have more extensive market access and more leverage to negotiate beneficial agreement terms. Organizations in the A rating category and below could have weaker access to bank facilities or refinancing options, depending on each borrower's unique credit characteristics. Our assessment of this renewal risk will hinge on each university's preemptive management of the situation, total variable rate and counterparty exposure, term out and payback provisions within expiring agreements, and organizational liquidity relative to amount of puttable debt. For more detail on this topic, please reference our special comment, "[U.S. Public Finance Borrowers Face Increasing Renewal Risk of Bank Facilities](#)," published in September 2010.

Future Capital Spending: Slowed Building Plans Anticipated After Years of Significant Borrowing and Capital Investment

The past 15 years ushered in an era of significant capital investment on university campuses in the U.S., a capital “arms race” resulting in extensive spending on academic, auxiliary, research, and athletic facilities. In light of weakened balance sheets and pressure on philanthropy and state capital support, most universities are carefully evaluating long-range capital needs and the sources of funding for capital investment and renewal. Low interest rates and significant use of the Build America Bond program by public universities contributed to a strong pace of borrowing during 2010, and in some cases incentive to accelerate borrowing plans and lock in capital funding sources despite potential negative arbitrage implications.

However, many institutions are choosing to cancel, cutback, or delay capital plans, in some cases putting very large expansion plans on hold indefinitely, and we anticipate that the pace of higher education capital investment in the U.S. will slow substantially for several years. The scope and pace of future capital investment is weighed by boards and senior management teams against the strategic importance of the project, security of financing for the project, and competing priorities for resources. As universities face pressure on tuition growth, fundraising efforts may shift increasingly toward raising gifts to support scholarships and moderately away from new construction and building naming opportunities. In addition to a slowed pace of new construction, we will continue to monitor institutional deferred maintenance backlogs and the adequacy of investment in ongoing renewal and renovation of existing plant. Many universities have become increasingly creative with building plans in order to reduce costs while still producing useful results. For example, renovation of existing buildings or purchase of already leased facilities, rather than construction of new facilities from scratch, has resulted in capital budget cost savings. We anticipate that many universities will be increasingly conservative in their approaches to evaluating capital, strategic, and borrowing plans.

Management teams and boards have been forced to question the underlying assumptions in their long-range models and no longer accept the status quo as organizations adjust to “new normal” realities, including:

- » More financial accountability placed on boards of trustees and management teams to demonstrate better control over tuition increases and improved long-range operational sustainability
- » Increased focus on centralization of processes, economies of scale, and operational efficiency
- » Growing demand for organizational transparency, outcomes data, and data-driven decision making
- » Need to clearly demonstrate product value and quality and projected return on investment
- » Ongoing resistance to tuition increases and growth of financial aid budgets
- » Longer term pressure on state budgets and government funding for public universities; public universities’ increasing reliance on student charges
- » Heightened political and public scrutiny of tax-exempt organizations
- » Increasing diversity of the student body and resulting need for more educational flexibility
- » Continued evolution of educational delivery formats and integration of technology
- » Still strong philanthropy and research funding for higher education although at a new lower funding level
- » Increased emphasis on balance sheet liquidity
- » More stress testing of long-range assumptions and enterprise risk management planning

Moody's Related Research

Special Comments:

- » [Governance and Management: The Underpinning of University Credit Ratings, November 2010 \(128850\)](#)
- » [State Funding Cuts Create Greater Stress for U.S. Public Universities, July 2010 \(126080\)](#)
- » [Tuition Challenges Continue for Many U.S. Universities, but Majority Forecast Growth, December 2010 \(129514\)](#)
- » [Liquidity and Credit Risks at Endowed U.S. Universities and Not-for-Profits, June 2010 \(123460\)](#)

Median Reports:

- » [Moody's Fiscal Year 2009 U.S. Private College and University Medians, July 2010 \(126349\)](#)
- » [U.S. Public University Medians for Fiscal Year 2009 Show Tuition Pricing Power Amidst Rising Challenges, August 2010 \(127197\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY
 REPORT ON PENDING PROJECTS
 February 22, 2011

<u>Institution</u>	<u>Project</u>	<u>Estimated Size of Issue</u>	<u>Estimated Pricing Date</u>
<u>Private Institutions</u>			
Fairleigh Dickinson University	Renovations and Addition to Library and Various Capital Improvements	\$25 Million	On Hold
<u>Public Institutions</u>			
Montclair State University	Construction of Two New Academic Buildings and Related Capital Improvements	\$119 Million	2nd Q 2011
Ramapo College of New Jersey	Refunding of Certain Existing Indebtedness and the Renovation of the College's Student Center	\$27 Million	On Hold