December 2012

Building futures

NJEFA

Viewpoint

$750 Million in Construction Funding Will Help Us Move Forward

By Rochelle Hendricks
Secretary of Higher Education

The strong link between the future of our State and the strength of our higher education institutions was never more evident than when our colleges and universities responded to the unprecedented impact of Hurricane Sandy. There are numerous accounts of our students, faculty and administrators volunteering their time and expertise, helping their fellow New Jerseyans through this devastating storm.

As we rebuild from the hurricane, I am confident that this demonstration of public engagement and community service will continue. Only days after the storm, by a wide margin—and for the first time in 24 years —New Jersey voters approved a $750 million general obligation bond for college construction.

The Building Our Future Bond Act will divide the money in this way: public research institutions will receive $300 million; public four-year colleges will receive $247.5; county colleges will get $150 million; and private institutions will receive $52.5 million. Spending will be bolstered by a 25% match from the institutions receiving the funding.

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Projects in 2012 – 2013 Expectations

Capitalizing on this year's historic lows in the bond market, EFA completed four transactions with four institutions with an aggregate total of approximately $210 million. Two-thirds of that activity was for refinancings and provided more than $14 million in combined net present value savings for participating colleges.

About $54 million financed new capital projects. Included among them were energy efficiency projects at Rider University and renovation and expansion of the Ramapo College of New Jersey's G-Wing Academic Building, which will house the College's new Adler Center for Nursing Excellence.

Ramapo College of NJ—Adler Center for Nursing Excellence

Also among the Authority's transactions was a $51 million competitive issue for The William Paterson University of New Jersey. The financing, comprised of two separate series of bonds, provided for a partial refunding and approximately $20 million for new campus projects that included construction of a new parking garage and related site improvements. The Authority's first competitive sale of bonds for a public university in a number of years, this financing was extremely well received by the market, with ten bidders on each of the two series. Citigroup was the winning bidder on both series of bonds and the transaction achieved an all-in cost of just under 3% and net present value savings to the University of $4.6 million or 14% of refunded bonds.

EFA's financing volume, including new money issuance, has been down the last few years. New money borrowing by colleges and universities is down significantly across the country with $7.9 billion in new money issuance, not counting combined issues, through the first three quarters of 2012. EFA's 2012 issuance pattern has mirrored national trends in this regard.

In 2013, we expect more of the same—most of our activity will be associated with refinancing of outstanding debt with some occasional new money issuance - apart from the issuance of Building Our Future Bonds and state-contract bonds, which are discussed elsewhere in this newsletter. ■

A New Chapter for New Jersey Higher Education

By Derek Hansel, Executive Director, NJEFA

Derek Hansel

What a fascinating and challenging time to be involved in higher education finance in New Jersey.

We have certainly witnessed transformative events during my first several months at the Authority: passage of a substantial restructuring of medical education, voter approval of the first general obligation bond referendum for colleges and universities in nearly twenty-five years, and a historic storm that wreaked havoc and devastation on the State. Although it appears that our colleges and universities were spared catastrophic losses, for some, the aftermath of Sandy has brought new and immediate recovery challenges, compounding the difficulty of delivering high quality education at an affordable cost.

The New Jersey Educational Facilities Authority has been at the forefront of supporting higher education and helping our clients meet their capital needs in the most cost-effective and efficient way possible. Most recently, we have joined the Administration's storm response team for higher education, spearheaded by Secretary Hendricks's Office, to help assess damage, identify and coordinate sources of assistance and to communicate critical recovery information to the higher education community.

Over the past year, we've helped institutions take advantage of the historically low interest rate environment, described by Katherine Clupper on page three, to achieve remarkably low costs of borrowing for new capital projects and significant net present value debt service savings on refundings. Most recently, we assisted William Paterson in the first competitive sale of bonds for a state university in many years; a transaction that was extremely well received by the marketplace and achieved an all-in cost of just under 3%.

Overall, issuance of debt in New Jersey's higher education sector has been constrained over the past couple of years due to several factors, including pressures to maintain prudent debt levels, the potential for a general obligation bond to assist in meeting higher education needs and a general concern for fiscal discipline. We anticipate, however, that unmet and deferred needs will spur additional borrowing in the next couple of years, both through state-supported programs and by individual institutions. The great news is that interest rates continue to be at extremely favorable levels—the climate to borrow is among the best of all time.

As Secretary Hendricks mentions in her column, the EFA is actively working with New Jersey Higher Education on readoption of regulations governing the existing state-backed bond programs issued and administered through the EFA (Higher Education Equipment Leasing Fund, Higher Education Technology Infrastructure Fund, Higher Education Facilities Trust Fund and Higher Education Capital Improvement Fund). Once these regulations are readopted, we will work actively with the Department, the State Treasurer and our clients to make funds available for needed projects.

Over the past seven months, I've had the opportunity to visit nearly twenty of our colleges and universities and I'm looking forward to visiting the rest in the next several months. I've also met with each of the industry's sector representative organizations as I have worked to better understand the capital plans and needs of our institutions and how this Authority can be of greater service.

NJEFA Financings Closed in 2012

INSTITUTION	PROJECT/PURPOSE	PAR AMOUNT
Rider University	Refunding and energy efficiency improvements	$52,020,000
The College of New Jersey	Refunding	$26,255,000
Ramapo College of New Jersey	Refunding and capital improvements	$80,670,000
The William Paterson University of New Jersey	Refunding and parking garage	$51,105,000
TOTAL:		**$210,050,000**

In response to some of my visits and input from our clients, we are considering the development of a master leasing program which might serve as a complement to our existing leasing options by making low-cost funds available for smaller and shorter-lived capital needs. We will work with institutions to determine how borrowing for their required match for general obligation bond proceeds under the Building Our Futures Bond Act may fit into their overall capital structure. We will also remain active in assisting institutions with their needs for auxiliary facilities.

As I look ahead to the coming year, obviously the focus and priority in New Jersey will be on recovery from Sandy. The EFA is committed to helping those efforts in any way possible. I am also excited about the prospect of new capital support for higher education and the positive impact of new investment on our economy and our future. In 2013, higher education in New Jersey will enter a new chapter. As it does, the EFA remains dedicated to pursuing cost-effective and innovative ways of helping colleges and universities fulfill their missions and promise to the students they serve. ■

Low Rates, Refundings, and LOC Activity Define 2012

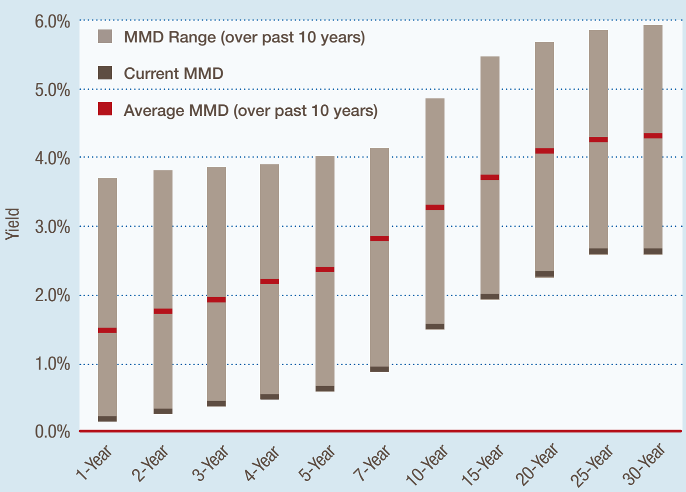
By Katherine Clupper, Managing Director, Public Financial Management, Inc.

The year 2012 began the same as the year 2011, with a mixed outlook for higher education institutions country-wide.

Those institutions with stronger market share, competitive tuition and strong balance sheets continued to prevail against financial upheavals and take advantage of market opportunities. Others with weaker financials struggled to continue to strengthen their credit profile and fund projects needed to make them more competitive. The higher education market reflected this continued struggle, with issuance picking up for some and others having to postpone or cancel critical capital projects. Overall issuance was up from 2011 as seen in the mid-year statistics for colleges and universities, increasing to 156 issues totaling $5.885 billion from 71 issues last year totaling $2.59 billion. Much of the increase is a result of refundings, resulting in a 99% increase in refunding issues in the overall education sector.

The tax-exempt municipal market continued to experience historically low interest rates, with rates currently at the lowest levels seen in the past ten years. The Bond Buyer Revenue Bond Index, which serves as a proxy for long-term tax-exempt interest rates, reset most

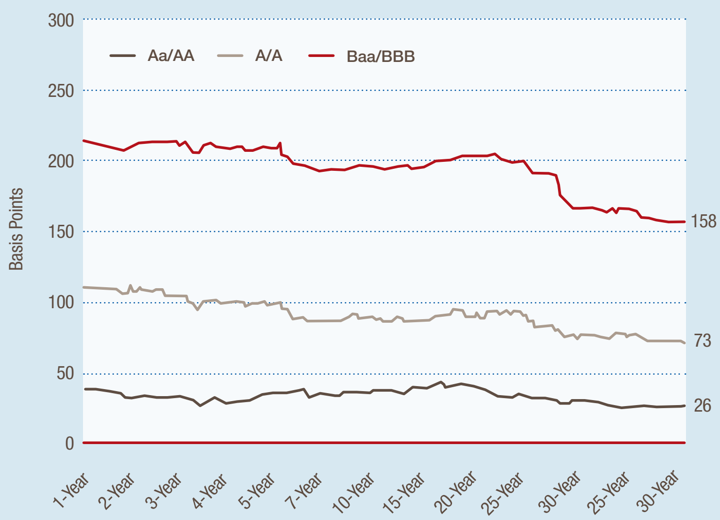
MMD Rates Over Time



recently at 4.17% on November 15th, breaking through its prior 30-year historical low of 4.23%. Long term tax-exempt rates as measured by the 30-year MMD high grade scale, which approximates the expected 30-year yield on a "AAA" tax-exempt bond issue, recently reset at 2.54%, below its all-time low of 2.79% set in July 2012. This trend will continue to provide refunding opportunities, the ability to restructure variable rate debt as fixed rate to reduce liquidity risk and to borrow for much needed projects to ensure institutions remain competitive.

This year also witnessed further deterioration of banks that provide needed liquidity to the higher education market. On June 21, 2012, Moody's released the long-awaited results of its review of large banks with global capital market operations. The key concern for not-for-profits and higher education institutions is that several firms (most notably Bank of America and Citibank) had their short-term ratings lowered below P-1, which has important implications in the short-term money markets. When a bank's short-term rating falls below P-1, many large investors (like money market funds), will no longer purchase securities issued by the bank due to statutory or policy limitations, resulting in a natural decline in demand for their securities. As a result, variable rate demand bonds supported by letters of credit from these

30 Year Interest Rate Comparison Since Jan 1, 2010

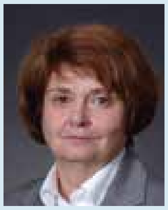


banks have experienced a spike in rates. Based on results from a review of variable rate demand bond resets, VRDBs with letters of credit or standby bond purchase agreements from institutions with a short-term rating of P-2 are pricing approximately 10 to 15 basis points above comparable credits with short-term ratings in the P-1 rating category. Replacing these letter of credit providers was another area of significant activity during 2012.

Credit is still a major driver in the discussion of capital structures for higher education issuers. An issuer's credit will have a major impact on the level at which its bonds will price. When looking back over this year, several issues will be noted: colleges and universities continue to face financial stress with some struggling much more than others; rates continued at historical lows providing refunding opportunities and historically low cost of capital and finally; financial institutions that provide credit continue to experience rating downgrades and their own financial stress, especially in the face of the looming Basel III implementation. What this means is credit profiles are still critical and drive financing costs and opportunities. More complicated debt structures needing credit support from banks are increasingly losing favor and many institutions are exploring opportunities for revenue diversity. ■

Municipal Market Watch

By Katherine A. Newell, Esq., Director of Risk Management, NJEFA



Katherine Newell

The Authority regularly monitors and often comments on legislative, regulatory and enforcement activities at the state and federal levels relating to the financial markets and issues that could affect market access by colleges and universities.

In recent months, market participants, regulators and legislators alike have seen increased focus on a range of issues that include implementation of the Dodd-Frank Wall Street Reform Act (Dodd-Frank), increased enforcement activity by the Securities Exchange Commission (SEC) and the Internal Revenue Service (IRS), and the effect of sequestration not only on outstanding debt, but also on the broader national economy.

Update on Dodd-Frank

In NJEFA's January 2011 Newsletter, we reported on the controversial October 2010 proposal by the SEC that might treat some college and university trustees, board members and employees with debt structuring and investment responsibilities as "municipal advisors" required to register with the SEC under Dodd-Frank. After receiving more than 1000 adverse comments on this proposal, the SEC is reconsidering its proposal and to date has not adopted a final definition. During the interim, legislation has been introduced in Congress which would provide a more limited definition of the term. The fate of this legislation and the position of the SEC are unclear at this point. NJEFA will continue to follow this issue and provide updates.

SEC Report on the Municipal Market

After conducting public hearings and gathering information from market participants, the SEC released a Report on the municipal market this July. The report encourages better disclosure, providing more information for issuers and borrowers about the pricing and trading of their bonds and, among other things, recommends enactment of legislation by Congress to give the SEC authority to regulate municipal issuers and borrowers directly rather than through regulation of broker-dealers as is currently the case. It also recommends eliminating exemptions for for-profit and non-profit conduit borrowers from registering their securities with the SEC. Removal of this exemption for non-profits would have a significant effect on colleges and universities by increasing borrowing costs and lengthening the time needed to close a transaction.

IRS Activities

The IRS is continuing its efforts to encourage post-issuance compliance by issuers and conduit borrowers, to conduct random audits and to distribute questionnaires to gauge the level of compliance. IRS representatives, speaking at the National Association of Bond Lawyers 2012 Annual Workshop, stated that the IRS is using information provided on the Form 990 Schedule K in selecting bonds issued for private colleges and other 501(c)(3) organizations for audit. They also announced the upcoming release of information obtained by the IRS from the 300 questionnaires the IRS distributed last year to governmental and 501(c)(3) issuers about their advance-refunding procedures and post-issuance compliance. According to comments at the Workshop, the results demonstrate that less than one-half of issuers have written procedures in place.

The IRS believes that written procedures help an issuer to monitor post-issuance compliance and prevent or correct unintentional tax consequences. NJEFA's written post-issuance compliance policy is available on the Authority's website. Authority staff is also available to provide assistance to New Jersey's colleges and universities as they develop or update their own written post-issuance policies.

Effect of Sequestration

The Budget Control Act of 2011 mandates automatic budget cuts on January 1, 2013 if Congress fails to enact a plan to reduce the Federal deficit by $1.2 trillion dollars. In September, the Office of Management and Budget issued a Report to Congress on behalf of the President estimating the potential of sequestration or across the board cuts.

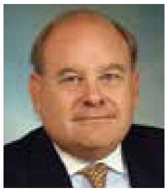
If sequestration occurs, payments due from the federal government to public colleges and universities with Build America Bonds will be cut by 7.6% or $322 million. In addition, federal student aid programs, including the Supplemental Educational Opportunity Grant, Federal Work-Study and Gear Up programs will be cut 7.6 to 8.2%, although Pell Grants are protected from cuts for one year in 2013. In addition, most federal research budgets at agencies such as the National Institutes of Health, the National Science Foundations, and the Department of Energy, which support R & D funding in higher education, will be cut 8.2%.

The Authority will continue to monitor and report on these and other matters of interest to New Jersey's colleges and universities. ■

Katherine Newell is a Member of the Advisory Committee on Governmental and Tax-exempt Entities to the Internal Revenue Service; a Member of the Debt Committee of the Government Finance Officers Association; and Chair of the Educational Facilities Panel for the National Association of Bond Lawyers Annual Workshop.

Building Futures with Innovation

By Roger B. Jacobs, Esq., Chairman, NJEFA



Roger Jacobs

I have had the pleasure over the last year of meeting with many of our college and university presidents and touring their campuses. My goal is to visit each one.

These visits have provided me the opportunity to learn first hand from our academic leaders about their vision for their respective institutions, roadmaps for achieving that vision and how the EFA can better support their missions.

Common to nearly all of my discussions has been a general desire to see more innovation in higher education across all aspects of running academic institutions, particularly with regard to building, utilizing and financing campus facilities. Cost-effective financing structures for physical plant needs are essential to achieving operational efficiencies. So are new ideas in land utilization, in re-engineering buildings to meet requirements of emerging academic disciplines, and collaborations with other institutions, businesses and industries.

I am impressed by many models of innovation on New Jersey's campuses and across the country. For example, Richard Stockton College of New Jersey utilized EFA financing in 2008 to help construct a new 155,000 square-foot Campus Center, the largest construction project on campus since the College's inception. The new facility provides a one-stop shop for student services such as a career center and financial aid support. Consolidating multiple uses into one facility freed up much needed classroom space in other campus buildings. Most impressive though, is the sustainability design of the Center, which utilized LEED principals in construction. The Center uses 25% less energy than standard construction, 40% less water and was built in part with recycled materials.

The Richard Stockton College of NJ—Campus Center

Montclair State University and The College of New Jersey have been successful recently in implementing complex public/private partnership financings to bring new housing and mixed use facilities on-line. In another example of innovation, Centenary College partnered with Habitat for Humanity to complete a barn restoration project for its Equestrian Center. In addition to building homes for low-income families, Habitat for Humanity also provides help and expertise to non-profits such as higher education institutions.

On a much larger scale of entrepreneurship, Cornell University, Technion-Israel Institute of Technology and the City of New York have partnered to build a $2 billion campus and start-up incubator on Roosevelt Island. The ambitious undertaking will bring CornellNYC Tech on line, a new graduate school in engineering and applied science. The school will collaborate with technology companies in an effort to transform New York City into a global leader in technological innovation with one of the world's most talented workforces.

> *"As fiscal pressures continue to build for administrators in running their institutions... the need for innovation is more important than ever before."*

I am confident that we are able to develop similar technology centers with academic collaboration in New Jersey. The Garden State is home to great academic institutions and the locus of the pharmaceutical industry, among others. We look forward to helping to develop collaborative engines of excellence in New Jersey.

Higher education is a constantly changing environment. As fiscal pressures continue to build for administrators in running their institutions—from increased competition for students and faculty, to dwindling resources, and external pressures to keep a tight reign on tuition—the need for innovation is more important than ever before.

The great news for New Jersey is that our institutions will benefit from new investment of capital through the recently authorized general obligation bond issue. Further investment may come from the EFA's state-supported programs, which could provide another $560 million in new capital.

The challenge and opportunity will be to make these investments count in every way possible. Not just in expanding capacity, but also in leveraging our investment so that new and restored facilities are utilized in better and smarter ways.

It is my goal for the EFA to be an active partner in facilitating more creative ideas in financing and by bringing people together to explore and exploit new possibilities for development of higher education facilities. We look forward to your input to better assist the higher education community to evolve in New Jersey. After all, isn't that what innovation means? ■

Viewpoint *continued from page 1*

The Christie Administration and Legislative leadership understand that if we are to have world-class institutions of higher education, we can no longer neglect our buildings and infrastructure. On behalf of the higher education community, I thank Governor Christie, the Legislature and our citizens for making this much-needed funding a reality.

In addition to the $750 million for capital improvements, a companion bill signed by the Governor provides for the reestablishment of the Higher Education Technology Infrastructure Fund (HETI); the Higher Education Facilities Trust Fund (HEFT), the Equipment Leasing Fund (ELF), and the Capital Improvement Fund (CIF)—contract bonds administered by EFA.

With input from higher education leaders, my office is in the process of developing regulations to allocate these funds and get the construction underway. This includes creating and implementing a comprehensive review process for projects that will tap the expertise provided by the EFA, the New Jersey Economic Development Authority, the Schools Development Authority and the New Jersey Commission on Capital Budgeting and Planning.

But that is not all that we are doing. New legislation, recently signed by Governor Christie, will make it easier for colleges and universities to enter into public and private partnerships to further increase the number of projects we can build.

We are reimagining and rethinking how to deliver the best education to our college students in New Jersey. One of the most significant accomplishments of the Christie Administration has been the bipartisan approval of the New Jersey Medical and Health Sciences Education Restructuring Act. Effective on July 1, 2013, the Act fosters creation of three hubs of higher education excellence in the northern, central, and southern parts of the state.

The Governor's view, and mine, is that the creation of regional centers of excellence will dramatically improve both medical and higher education in the State. Three dynamic centers will increase the State's capacity to partner with business and industry, promote economic growth and innovation, and increase opportunities for students.

Under the Restructuring Act, Rutgers will assume control of the Robert Wood Johnson Medical Center in Piscataway, the School of Health Related Professions, the Graduate School of Biomedical Sciences, University Behavioral Health Care, and the Public Health Research Institute. It also establishes Rowan University as a research institution, helping us address longstanding inequities in South Jersey.

This is an era where bold, transformative change is not only possible, but necessary. The good news is that it is happening already. The $750 million bond is already approved. The Restructuring Act is maximizing educational opportunities throughout the State.

I look forward to sharing information with you about our economic growth and workforce development efforts, as well as new policies to enhance accountability and productivity with a focus on access, affordability and achievement.

Working together, we can achieve greatness, even as we recover from the hurricane. ■

Building futures is a publication of the New Jersey Educational Facilities Authority. For further information, please contact NJEFA at:

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2013 Board Calendar

January 22

February 26

March 26

April 23

May 28

Meeting dates subject to change.