

Building futures

NJEFA

Viewpoint

It's Not Just About Bonds



By Roger B. Jacobs, Esq.
NJEFA Chairman

EFA helps our colleges obtain low-cost financing, typically through tax-exempt bonds, to develop their campus facilities. Our business, however, is not just about bonds. It's about our future.

Speaking about our future, I recently served on a panel at a conference of the National Association of Health and Educational Facilities Financing Authorities that focused on the broader economic and societal impacts of conduit issuers like the EFA. My co-panelists were Cornell Brooks, Executive Director of the NJ Institute for Social Justice, and Jennifer Ma, Co-Author of The College Board's multi-year study, *Education Pays: The Benefits of Higher Education for Individuals and Society*. While Cornell's work aims to improve the lives of urban residents and underserved populations through advocacy, education and training programs, Jennifer's research has confirmed that social and economic disparities exist among minorities in both access to, and success in higher education.

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New Project Financings in 2010

New project financings for New Jersey's colleges and universities were robust in 2010 as the Authority completed 10 transactions with a total combined par value of nearly \$531 million. Of that amount, 85% or \$450 million represented new money for campus improvement projects, compared to 2009, during which nearly 94% of Authority transactions were refinancings.

Among the Authority's transactions was its first for a community college, signifying a growing need for capital investment in this sector due to rising enrollment and limited state support. The Authority issued \$13.6 million bonds for Passaic County Community College in a negotiated, fixed-rate transaction that carried a true interest cost of 5.35%. Rated A2 by Moody's, the financing will help the College construct a new 68,000 sq. ft. academic building (pictured below), part of which will be subleased to Passaic County and the State for use as a "one stop" career center.

Other unique deals during the year included three financings under the Build America Bonds program (BABS) for The College of New Jersey (TCNJ), the New Jersey Institute of Technology (NJIT), and New Jersey City University (NJCU), respectively. TCNJ is using bond proceeds to construct a new academic building for its School of Education. NJIT's financing will help the Institute acquire and rehabilitate a former high school for use as an academic facility. NJCU will use the financing for various capitol projects. BABS were created under the 2009 American Recovery and Reinvestment Act under which certain governmental issuers were authorized to sell taxable bonds for new capital projects and receive a federal subsidy equal to 35% of the interest cost. The issuance window for BABS expired on December 31, 2010. ■



Rendering of Passaic County Community College's new academic building

Looking Forward in Rapidly Changing Times

By James S. Poole, NJEFA Executive Director



James S. Poole

As I begin my tenure at the Authority, I am grateful to the Board and staff for the warm welcome I have received. I look forward to working with EFA Members, Governor Christie's Administration and New Jersey's higher education community to best position the Authority in meeting the challenges that lie ahead for both the Authority and its clients.

Already, I have been impressed with the dedication of Authority staff and its long tradition of client service. I hope to build on that tradition and am committed to finding ways to help our colleges secure the most efficient and lowest cost of capital.

The higher education policy debate in New Jersey has just been kicked into high gear with the recent release of the report of the New Jersey Higher Education Task Force. The timing couldn't be more crucial as challenges for higher education continue to grow. As Darryl Greer, CEO of the NJ Assoc. of State Colleges and Universities said recently in *The Times*, "Challenged with limited resources and enrollment demands rising, state colleges continue to do what they must to keep college costs down while keeping opportunity and quality up."

In addition to the Task Force report, there are several proposals in Washington, which include: expanded regulatory oversight of municipal issuers; new compliance and enforcement initiatives by the IRS; and efforts by Congress to reevaluate tax-exempt bonds for non-profits, to name a few.

As these reports and proposals move forward, I look forward to meeting the Presidents and finance professionals at our

colleges and universities. I hope to seek their input and learn about their future capital plans, with the goal of positioning the Authority to better serve our clients' financing needs in these rapidly changing times.

Part of that service also includes keeping a tight reign on operational spending and issuance costs, in addition to identifying opportunities for colleges as they relate to our servicing of their debt. Today, for example, the Authority manages over \$600 million in outstanding bond funds, provides investment management services, arbitrage rebate and various other post-issuance compliance services. We are looking closely at these and every other service provided by the Authority to identify potential efficiencies in an effort to reduce the costs paid for by the colleges.

Another recent change, which was started by our Chairman Roger Jacobs before I arrived, is to invite colleges to present their projects at our Board meetings. To that end, the Board and staff would like to thank FDU's Provost of the Madison Campus, Kenneth Greene, and VP of Finance and Treasurer, Hania Ferrara, as well as MSU's VP of Finance and Treasurer, Donald Cipullo, for their respective presentations at the Authority's November Board meeting. Both afforded a valuable opportunity to hear first-hand how their projects fit within the institutions' missions and long-range capital plans.

As 2011 gets underway, my door is open, most especially, to our clients, to our members and staff, to our finance professionals and anyone else with ideas on how the Authority can best support world-class higher education in New Jersey. You have my commitment that I will work every day toward that end. ■

NJEFA Financings Closed in 2010

INSTITUTION	PROJECT/PURPOSE	CLOSING DATE	PAR AMOUNT
The College of New Jersey	Academic Building	1/14/10	\$44,500,000
Princeton University	Capital Improvements	1/28/10	\$250,000,000
Princeton Theological Seminary	Student Housing Facility	2/11/10	\$68,785,000
Kean University	Equipment	6/10/10	\$10,000,000
New Jersey City University	Refunding and Capital Improvements	9/2/10	\$42,375,000
Thomas Edison State College	Capital Improvements	9/14/10	\$700,000
New Jersey Institute of Technology	Refunding and Academic Building	11/12/10	\$71,415,000
Drew University	Refunding and University Center	11/15/10	\$15,580,000
Passaic County Community College	Academic Building	12/15/10	\$13,635,000
Centenary College	Refinancing	12/15/10	\$13,974,000
TOTAL:			\$530,964,000

2010 Year in Review: The Year of BABs

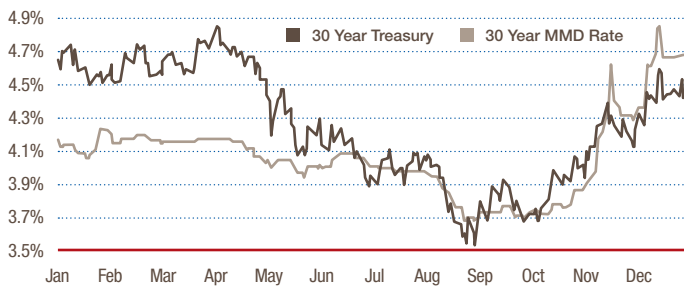
By Anthony P. Inverso, Managing Director, Phoenix Advisors, LLC

2010 was characterized by a surge of Build America Bonds (“BABs”) issuance and volatile market rates. BAB sales soared in 2010 as uncertainty hovered over the popular program’s future.

While industry professionals struggled throughout the year with the prospect of “life after BABs”, municipal rates took participants on a wild “roller coaster” ride throughout the course of the year.

Municipal interest rates were generally low during the first half of 2010, especially for maturities within 10 years. Issuers took advantage of low rates by bringing over \$200 billion to market during the first half of the year, 25% of which were BABs. During the second half of 2010, market participants enjoyed the speedy downhill ride as municipal rates dipped nearly 100 basis points on the short end and 50 basis points on the long end, to fall to their lows for the year in August. From there, the market positioned itself for a fourth quarter that would be filled with tremendous new issuance volume and rate ascension.

30 Year Interest Rate Comparison Since Jan 1, 2010

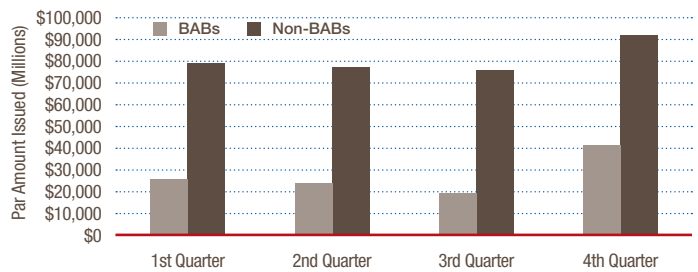


As market participants feared the end of BABs, issuers brought them, and similar securities created by the American Recovery and Reinvestment Act, as if they were going out of style (while in reality, they were). Volume for the fourth quarter exceeded \$132 billion, making it the second busiest quarter in history. Record issuance coupled with the extension of federal tax cuts and qualitative easing by the Federal Reserve (“QE2”) caused a dramatic spike in rates. Rates in the fourth quarter jumped over 100 basis points from their August and September lows. In particular, the first two weeks of December were extremely volatile, as issuers continued to flood the market with BABs, oversupplying the waning demand.

A detailed review of the municipal market reveals that fixed rate debt dominated variable rate in the overall market, as it did in 2009, accounting for over 90% of issuance. This is in contrast to the previous eight years where fixed rate bonds averaged

only 75% of the market. Additionally, to take advantage of the low interest rate environment experienced throughout most of the year, issuers were active refunding outstanding debt, representing 23% of the market. Taxable debt rose to 35% of total debt issued, up from 21% last year, buoyed by BAB issuance, which accounted for 77% of all taxable debt and 27% of all debt issued. Issuers continued the trend of the previous two years by bringing almost all bonds to market without bond insurance. Insured issues accounted for only 6% of new issues in 2010, down dramatically from the 50% seen in the years before the sub-prime mortgage crisis.

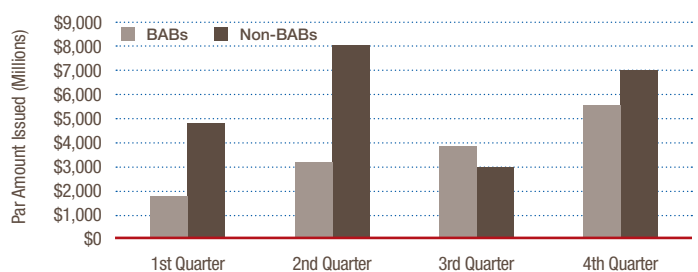
2010 Issuance by Quarter



Higher education issuance reflected the characteristics of the general market with over \$37 billion issued through predominantly fixed rate long-term debt. Although economic factors have generally presented challenges to colleges and universities over the past few years, institutions found an opportunity to finance necessary projects and refinance existing debt in the year’s low interest rate environment. Higher education institutions were particularly attracted to the low, long-term, after-subsidy yields offered by BABs as a method to finance important campus improvements. As a result, BABs represented nearly 40% of all higher education issuance.

After a tumultuous fourth quarter, the municipal market quietly settled as 2010 concluded. With oversupply behind it, contrasted with improving economic conditions, the municipal market appears poised for an encore roller coaster ride during the early part of 2011. Most market participants expect to “hold on” for an upward climb in rates but uncertainty and anxiety will remain as we wait to see how high we climb and if there will be a drop on the other side. ■

2010 Higher Education Issuance by Quarter



Top 10 Higher Education State Policy Issues for 2011



By Daniel J. Hurley, Director,
State Relations and Policy Analysis
American Association of State Colleges
and Universities, Washington, D.C.

Presented here are 10 issues likely to affect public higher education across the 50 states this year, informed by an environmental scan of the economic, political and policy landscape surrounding the public postsecondary sector.

1 State Operating Support for Public Higher Education

Given the cascading effect that state funding has on college affordability, enrollment capacity and academic quality in public higher education—and the still austere circumstances facing states' budgets—it comes as little surprise that legislatively-directed taxpayer support for public colleges and universities tops the 2011 list of critical state higher education policy issues. While most states' revenue streams have returned to positive territory, the likelihood of generating additional state revenues via tax increases is doubtful given the message sent by taxpayers in the 2010 midterm elections.

2 States' College Completion and Educational Attainment Agendas

The 2011 forecast for state higher education funding, however bleak, has not lessened the significant federal, national and state efforts aimed at boosting college completion rates, degree production and lifting citizens' overall educational attainment levels. The Obama Administration and the philanthropic community are providing considerable resources to identify and test pilot institutional, system and state-level strategies for boosting degree production. Many governors will lead efforts to craft policy strategies to boost the effectiveness, efficiency and outcomes of their states' P-20 systems.

3 College Readiness

The lack of alignment between high school and college academic expectations contributes to high postsecondary remediation rates and hinders college completion. A significant breakthrough occurred in 2009 when the National Governors Association (NGA) and the Council of Chief State School Officers (CCSSO) coordinated the Common Core State Standards Initiative, which created national (not federal)

standards for K-12 education that are aligned with college and work expectations. More than 40 states have adopted the English Language Arts and Mathematics standards released in mid-2010. The hard work lies ahead, however, as states move from adoption of standards to their full implementation, including development of curriculum and assessments.

4 Tuition Prices and Policy

Tuition prices and tuition policy will continue to be a major focus for state lawmakers in 2011. The trend of shifting responsibility for higher education funding from the state to students and families will likely continue for the foreseeable future. Dialogue regarding institutional versus state authority to set tuition prices, as well as performance funding for higher education, will continue.

5 State Student Aid Program Financing

Given sustained financial pressures on students and families, combined with ongoing state budget crises, state student aid programs will be further stretched in this year. It is clear that demand for state student financial aid, whether need- or merit-based, will remain strong. The question will be how long states can supply aid monies amidst ever-tightening state budgets.

6 Student Enrollment Capacity

A sluggish economy and corresponding weak job prospects, peak numbers of high school graduates, sizable gains in the proportions of ethnic minorities attending college, and high rates of college enrollment immediately upon graduation have all contributed to record enrollments. Institutions' capacity to absorb these increasing enrollments is being questioned, as many schools have reported insufficient capacity to meet current or future student enrollment projections.

7 State Data System Development

Though statewide postsecondary data systems have historically been built chiefly to meet accountability requirements, recent years have seen a shift in focus to the use of data to promote student success from pre-school through college and the workplace. This shift has coincided with the recent and rapid development of K-12 statewide student databases and the growing recognition that better data on student progression through the educational pipeline are needed to help the nation meet its educational attainment goals.

8 Economic and Workforce Development

With the economy and labor data in mind, state lawmakers will work with higher education leaders in developing policy proposals aimed at more fully leveraging colleges' and universities' ability to contribute to states' job creation and workforce development goals.

9 States' Political Climate

Given that Republicans achieved their largest state-level gains in 80 years, there may be some impact on higher education due to a fiscally conservative movement that thrust many new politicians into state legislatures and governorships—some with little, if any, higher education policy-making experience. The extent of bipartisan cooperation in state legislatures may serve as a proxy for higher education state policy achievements.

10 States' Regulatory Framework

Absent the prospect of additional funding for higher education this year, lawmakers will consider regulatory reform that lessens the constraints brought about by state administrative rules and reporting protocols in critical areas such as procurement and capital outlay. Monies saved at the campus level can in turn be invested in core pursuits such as enhancing college affordability, student success and degree production. New Jersey could serve as a national example in this regard.

Other legislative deliberations this year ahead will involve infrastructure improvement (deferred maintenance) and capital improvement needs, concealed weapons possession laws on college campuses, enrollment and tuition policies involving undocumented students, and additional oversight of the for-profit higher education sector. For a more detailed look on this Top 10 issues brief, visit www.aascu.org/policy. ■

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The common denominator in our discussion was a shared desire to do more to expand opportunity within the purview of our respective professional and civic affiliations. It also provided insight into the role EFA can play in our society by looking at the bigger picture and not just the bonds.

During my tenure as Chairman of the Authority, we have begun a number of initiatives to help further that goal. One such initiative, for example, is to invite experts in the higher education and public finance community to our Board meetings to help raise awareness of the broader impact of the Authority's work on the State's higher education community and on New Jersey's economy.

I'd like to thank our first guest speaker, Bloomfield College President, Richard Levao, for his presentation in November that focused on the New Jersey Presidents' Council's recent economic impact report, *Partners for Prosperity: New Jersey and Higher Education*. In addition to world-class academics, as President Levao said, "Collectively, our colleges and universities are the sixth largest employer in New Jersey, ahead of banking, insurance, pharmaceutical and chemical manufacturing, among others, with a payroll of nearly \$4 billion."

The work of the EFA contributes to New Jersey's economic prosperity through the creation of jobs and business opportunities, particularly in the construction industry. Looking at 2008 alone, the Presidents' Council report found that New Jersey's colleges and universities spent \$677 million on capital construction

projects, which created an estimated 4,250 additional construction jobs. About 40% of that amount was financed through the EFA, and in 2010, the Authority financed another \$450 million in new construction projects that are now, or soon to be, underway. Perhaps we can give greater thought to job maximization and utilization of underserved populations in the work force.

Another new direction for the EFA will be to examine how we can best expand opportunity in the area of procurement, in particular, for small, women and minority owned businesses. In the last decade, the Authority completed \$8.3 billion in transactions, of which about half financed new capital projects. These projects represent a large pie of opportunity for qualified banking institutions and bond professionals. My goal as Chairman is to see that pie shared as broadly as possible.

Supporting that effort is a new law in New Jersey that requires State entities, including the Authority, to examine opportunity of minority and women owned financial institutions to serve as senior managing underwriters. The Authority looks forward to taking a closer look at its own procurement policies and practices with an eye toward broadening opportunity for individuals and organizations with which we do business.

We are committed to finding new and better ways to help our colleges finance their capital needs so that they can better serve our students. We are also focused on business practices that support a brighter future for all of New Jersey—because our future is about more than just bonds. ■

Update on SEC Proposed Regulations

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

Under the Dodd-Frank Wall Street Reform and Consumer Project Act (“Dodd-Frank” or the “Act”), effective October 1, 2010, “municipal advisors” must register with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) if they provide certain financial advice to “municipal entities” (including issuers of government bonds), or non-municipal conduit borrowers (“conduit borrowers”).

On December 20, 2010, the SEC proposed regulations (the “Proposal”) interpreting the term “municipal advisor” to include members of NJEFA and trustees and employees of colleges and universities that use government bond financing who provide financial advice to the entity they serve.

The Proposal excludes from the definition members who are elected public officials or are ex officio because they hold elected public office and employees of “municipal entities” like NJEFA. There is no express exclusion for appointed board members like NJEFA’s or for board members or employees of colleges. The SEC’s discussion of its rationale appears on page 834 of the

Proposal in the Federal Register which may be found at <http://www.sec.gov/rules/proposed/2010/34-63576fr.pdf>

Whether an affected board member or employee will be required to register with the SEC and the MSRB depends on whether the SEC determines that these individuals are providing financial advice to NJEFA or to their college or university in connection with bond issues. If such a determination is made by the SEC, then individuals must file a registration statement. The registration form requires disclosure of certain financial information and other personal and business information, which will become public and must be updated if changes occur. Failure to register, if required, can also be subject to enforcement action.

The SEC is seeking comments on the Proposal and the National Association of Health and Educational Facilities Finance Authorities is planning to submit comments. Affected parties may want to encourage organizations representing their interests to comment or may want to submit individual comments or otherwise seek specific advice. Comments are due on or before February 22, 2011. NJEFA will be happy to answer any questions.

Announcements

Katherine Newell, Esq., the Authority’s Director of Risk Management, was appointed to a three-year term on the Government Finance Officers’ Association’s Committee on Governmental Debt Management (Debt Committee). The Debt Committee deals with matters relating to debt issuance and management by governmental entities. This year, the Debt Committee will be working with the GFOA’s Federal Liaison Center to review and comment on the many regulatory proposals required by the Dodd-Franks legislation that affect municipal debt.

Debra L. Paterson, celebrated 25 years of service to the Authority. Debra began her EFA career in 1985 as Office Assistant. As the longest serving staff member, today, Debra is the Authority’s Senior Risk Manager and works on post-issuance compliance issues and real estate matters on college bond financings.



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2011 Board Calendar

January 25
February 22
March 22
April 26
May 24
*Meeting dates
subject to change.*