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CREDIT OPINION
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Rutgers, The State Univ. of New Jersey, NJ

Update to credit analysis

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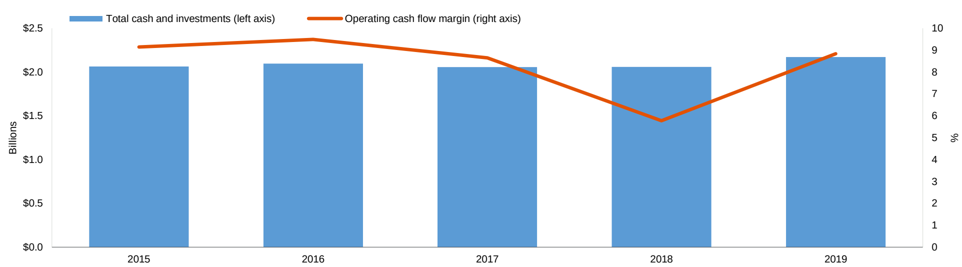
Summary

Our credit view of Rutgers, the State University of New Jersey, (Aa3 stable) positively incorporates the university's large scale of operations and critical role in the State of New Jersey's (A3 stable) educational framework as its flagship and land grant university. Favorably, university leadership continues to successfully plan and execute complex strategic change, including an affiliation with RWJ Barnabas Health (A1 positive). Financial benefits from this affiliation and healthy fundraising will increase already sizable financial reserves. Due largely to almost $1.7 billion of capital investment over the past five years without significant growth in debt, cash and investment levels have lagged some peers. Offsetting characteristics include very thin flexible financial reserves compared to operating expenses and high adjusted debt as well as a pressured state environment and large long-term pension liability. In addition, Rutgers' ambitious, multi-campus capital plan requires significant, ongoing capital investment.

Exhibit 1
Financial reserves provide a solid buffer to fluctuating operating performance even absent growth in reserves



Source: Moody's Investors Service

Credit strengths

» Substantial scale with almost $4.3 billion of operating revenue and over $2.1 billion of total cash and investments

» Effective management continues to demonstrate success in planning and execution of major strategic and operational changes

» Solid growth in enrollment and net tuition revenue and brand strengthening through medical and research profile

» Diversified revenue, including student charges, state appropriations, research grants, and patient service revenue

» Master Affiliation Agreement with RWJ Barnabas Health will contribute to flexible reserve growth and increase pace of healthcare-related revenue growth

Credit challenges

» Thin unrestricted operating reserves compared to peers, with spendable cash and investments to operating expenses of a low 0.3x and limited liquidity with 87 monthly days cash on hand

» Poor funding of state-sponsored pension funds could result in higher fringe benefit costs for the university

» Aspirational, multi-campus capital plan to improve competitive position requires ongoing capital investment with already high financial leverage

» Increasing exposure to healthcare-driven revenue adds to risk profile given higher overall volatility in the healthcare sector

Rating outlook

The stable outlook incorporates prospects for continued generally breakeven operations with steady reserves and limited debt increases.

Factors that could lead to an upgrade

» Sustained, material improvement in operating performance resulting in strengthened cash flow and debt service coverage

» Significant growth of available reserves and liquidity, providing greater flexibility to adjust to potential volatility in state funding

Factors that could lead to a downgrade

» Prolonged contraction of already slim operating margins

» Decline in cash and investments or weakening of liquidity given already very thin liquidity levels for the rating category

» Further pressure on the State of New Jersey's (A3 stable) credit quality or material reduction of financial support

» Material additional debt without compensating growth in cash and investments and operating cash flow

Key indicators

RUTGERS, THE STATE UNIVERSITY OF NEW JERSEY, NJ	2015	2016	2017	2018	2019	Median: Aa Rated Public Universities
Total FTE Enrollment	59,066	60,345	60,608	62,105	62,491	29,353
Operating Revenue ($000)	3,574,970	3,675,775	3,868,259	3,941,580	4,274,613	1,186,906
Annual Change in Operating Revenue (%)	4.2	2.8	5.2	1.9	8.4	3.2
Total Cash & Investments ($000)	2,063,038	2,095,952	2,056,120	2,058,633	2,170,743	1,363,489
Total Debt ($000)	1,985,833	1,953,525	1,926,370	2,060,582	2,046,400	643,972
Spendable Cash & Investments to Total Debt (x)	0.8	0.8	0.7	0.6	0.7	1.4
Spendable Cash & Investments to Operating Expenses (x)	0.4	0.4	0.4	0.3	0.3	0.7
Monthly Days Cash on Hand (x)	96	91	106	93	87	169
Operating Cash Flow Margin (%)	9.1	9.5	8.6	5.8	8.8	11.2
Total Debt to Cash Flow (x)	6.1	5.6	5.8	9.1	5.4	4.7
Annual Debt Service Coverage (x)	2.4	2.4	2.3	1.6	2.4	2.9

Total debt does not include $330 million in century bonds issued in fiscal 2020
Source: Moody's Investors Service

Profile

Rutgers, the State University of New Jersey, is the State of New Jersey's flagship and land grant university as well as a comprehensive research institution. Campuses are strategically located throughout the state in New Brunswick, Newark, and Camden as well as the university's academic health center, Rutgers Biomedical and Health Sciences. The university's full-time equivalent enrollment is over 62,400. Annual operating revenue is almost $4.3 billion.

Detailed credit considerations

Market profile: strategic initiatives attract students, resulting in favorable demand

Student demand will remain sound due to a number of strategic initiatives to attract and retain students. These include joining the Big Ten Athletic Conference, adoption of a comprehensive physical master plan and recruiting in select markets outside of New Jersey. The university's academic reputation continues to improve as enrollment grows, benefitting from honors programs, increased accessibility and research growth. The 2017 establishment of Rutgers Health (the clinical arm of the university and the state's academic health center) and finalization of a partnership with RWJ Barnabas Health in 2018 will result in growth of Rutgers' healthcare enterprise, revenue, and financial reserves.

Rutgers benefits from its position as the state's flagship and land grant university, with multiple campuses enhancing demand and political support. The university's large scale and diversity as a public comprehensive research university is credit positive. It has over $750 million in grants and sponsored research awards, is the state's only nationally designated comprehensive cancer center, and serves over 60,000 full-time equivalent students.

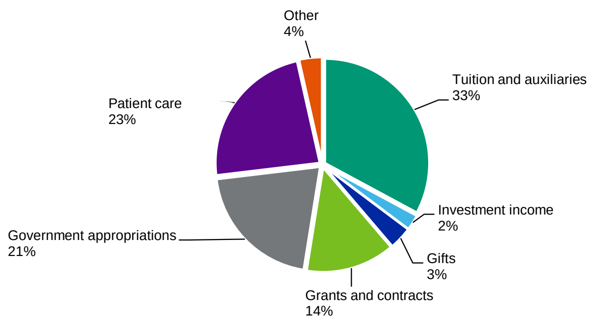
Despite strong demand, net tuition per student will experience some pressure resulting from the university's emphasis on affordability, with below inflationary increases in sticker price and growing financial aid support. However, growth was good in fiscal 2018 and 2019, in the 2-3.5% range. With the New Brunswick campus near capacity, the ability to attract students and faculty to the Newark and Camden campuses will drive how large the university can grow.

Operating performance: near breakeven operations to continue, improved performance in fiscal 2019

Operating margins will continue to be near breakeven given the university's continued focus on affordability. As expected, 2019 operating performance was in line with prior years after a weaker fiscal 2018. The operating cash flow margin increased to a solid 8.8% in fiscal 2019 from 5.8% in fiscal 2018. Operating performance will be steady for fiscal 2020, benefitting from growing patient care revenue and enrollment.

Rutgers benefits from diverse revenue streams (see Exhibit 3), though some are vulnerable to declines, particularly government sources. Student charges revenue growth will remain solid, representing the largest component of operating revenue, at 33% for fiscal 2019. While moderate tuition increases will continue in the near term, 2.9% for fiscal 2020, Rutgers could leverage its pricing power and tuition-setting authority to grow net tuition revenue to counter declines in other revenue streams if needed. After fiscal 2020, the university will also benefit from increased athletic revenue from the Big 10 conference, replenishing some use of reserves.

Exhibit 3
Diverse revenue streams support excellent credit quality



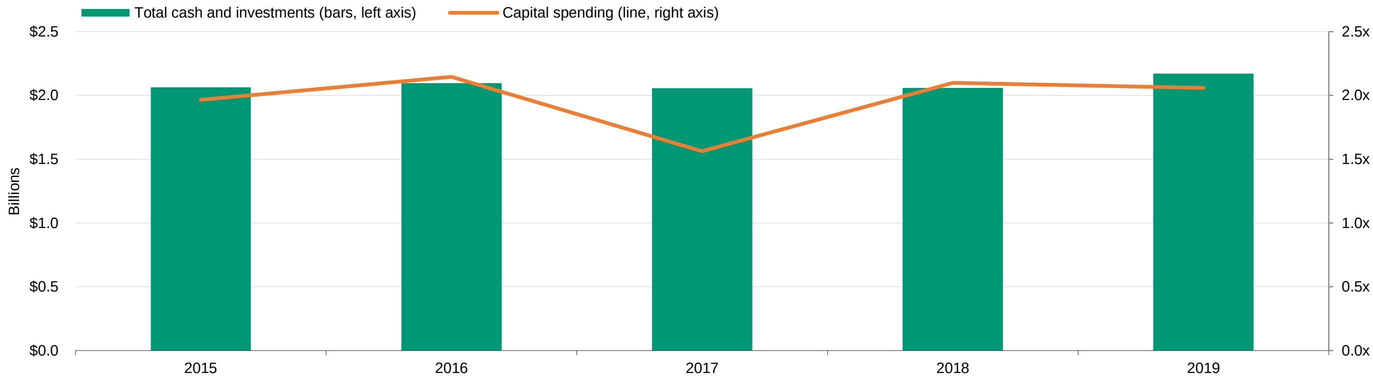
Source: Moody's Investors Service

While state support increased slightly in fiscal 2020, over time, a slightly larger portion is likely to be devoted to fringe benefits rather than operations. With the creation of Rutgers Health and the affiliation with RWJ Barnabas Health, healthcare-related revenue will rise at a higher rate than in the past.

Wealth and liquidity: strong overall wealth although liquidity is limited

Rutgers' wealth on an absolute basis is substantial, although spendable reserves and liquidity are comparatively low. Fiscal 2019 spendable cash and investments of $1.4 billion covered just 34% of annual operating expenses, compared to a median of 70% for Aa-rated public universities. Total cash and investment growth has lagged peers, with 5% growth over the past five years compared to a peer median growth rate of over 20%. Rutgers' high level of capital investment funded from cash and cash flow has constrained growth in wealth (see Exhibit 4).

Exhibit 4
High level of capital investment contributes to lagging cash and investment growth



Source: Moody's Investors Service

Favorably, in fiscal 2019, a $100 million cash infusion from RWJ Barnabas Health as quasi-endowment funds dedicated to support the healthcare enterprise boosted cash and investment growth. Some of these funds were classified as gifts, further increasing healthy and growing fundraising. The university forecasts gifts to exceed $200 million in cash in fiscal 2020.

The $1.4 billion endowment is managed internally and reported a 5.2% return for fiscal 2019, consistent with sectorwide returns. The university is implementing some changes to its asset allocation targets, including reducing hedge fund exposure in favor of private equity investments.

Liquidity
Rutgers' monthly liquidity is thin compared to Aa3 peers but is adequate given the limited near term potential calls on liquidity. Approximately $949 million of monthly liquidity translates into just 87 days cash on hand, a more modest cushion post-absorption of the legacy UMDNJ units. The university does not own a hospital. It does not provide its own liquidity for demand debt. A $20 million collateral posting on swaps is manageable as are unfunded capital commitments of $252 million. Favorably, the university's overall $1.4 billion of spendable cash and investments and positive fundraising momentum provide alternate liquidity sources that can be accessed if needed. The university has liquidity agreements with a diversified set of banks for its variable rate debt and commercial paper (CP) program.

To support its CP program, Rutgers has a $100 million facility with Bank of America (expiration July 2020) and a $200 million facility with Wells Fargo Bank, N.A. (expiration April 2021). Series 2009 variable rate debt is supported by a facility from TD Bank, N.A. (expiration July 2023).

Leverage: high leverage with stable overall position despite ambitious capital plan

Careful capital planning and debt management will contribute to a relatively stable leverage position. The university has a large pipeline of aspirational capital projects as part of its Rutgers 2030 plan but is taking a disciplined approach to moving forward with specific projects. The university has not associated a total price tag with this 15-year plan. However, a complex multi-campus system and high level of capital investment highlight a capital intensive organization with significant capital needs.

Capital spending has been well in excess of depreciation and peers over the past five years. However, the university's age of plant of around 17 years is still slightly higher than peers. The university forecasts total spending of about $335 million for fiscal 2020 through fiscal 2022, funded through a combination of new and existing debt, gifts, cash flow and reserves. Long-term debt issued in fiscal 2020 of $330 million included internal bank capitalization to fund deferred maintenance and capital projects related to individual programs.

After issuing $330 million in century bonds in fall 2019, Rutgers has limited additional debt capacity at its current rating level absent sustained operating cash flow margins at or above fiscal 2019 levels. Debt to cash flow improved to 5.4x in fiscal 2019 from 9.1x in fiscal 2018. Financial leverage is also weak when measured against spendable cash and investments, at 0.7x compared to a 1.4x median for peers. The university does not expect additional new debt for several years or material new commercial paper use through 2022.

Debt structure

Almost all of the university's outstanding debt of $2.3 billion (including fiscal 2020 issuance) is fixed rate, providing stability for planning purposes. Variable rate debt includes $63 million of variable rate demand bonds supported by an SBPA and pro forma commercial paper of approximately $70 million. Excluding the century bond issue, debt service is in the $150 - $170 million range through fiscal 2033 after which it gradually declines through fiscal 2048.

Legal security

Rutgers' general obligation bonds, lease revenue bonds, and commercial paper are payable from all legally available revenue and fund balances. In addition, Rutgers guarantees debt service on certain bonds of the LEAP Academy University Charter School, Inc. The university has covenanted that it will charge and collect tuition, fees, rents, charges and other revenues which, together with other legally available funds, will be sufficient to make all debt service payments on time and to meet all other obligations of the university.

Debt-related derivatives

Two fixed payer interest rate swaps with a total notational amount of $110 million are used as a hedge against the variable rate bonds and commercial paper. The university currently posts around $20 million in collateral on a liability of $41 million.

Pensions and OPEB

Rutgers' pension liability is large but manageable given its scope of operations and financial resources. Total adjusted debt for fiscal 2019, including $2 billion of total debt and $2.2 billion of Moody's Adjusted Net Pension Liability and operating leases, is generally equivalent to operating revenue and in line with other Aa-rated public universities. However, spendable cash and investments only cover total adjusted debt by 0.3x compared to the fiscal 2018 median of 0.6x for Aa3-rated public universities.

Rutgers participates in three pension plans administered by the State of New Jersey, two of which are defined benefit plans. For all plans, the state pays 100% of employer contributions, but the university is responsible for reimbursing the state for the pension contributions based on salaries and number of employees that exceed the state-determined levels. The university also participates in two defined benefit and two defined contribution federal retirement plans.

ESG considerations

Environmental

Environmental factors are not a material credit driver at this time. Like many peers, the university has a focus on campus sustainability and programs in climate education and research.

Social

Demographic strains, such as flat to declining high school students, and an emphasis on access and affordability will continue to impact higher education in New Jersey. Rutgers continues to work closely with the state on these areas and received proportionally higher state funding for the Newark and Camden campuses to support growth and student success. Social risks associated with the provision of healthcare, including health and safety and exposure to changing state and federal policy priorities, are rising as the university's healthcare enterprise expands.

Governance

Rutgers' strategic positioning is very good, supported by senior leadership's ability to plan and execute significant strategic changes. Leadership has completed a 5-year comprehensive strategic plan and a 15-year comprehensive physical master plan guided by strategic plan priorities. It has successfully established Rutgers Biomedical and Health Sciences as a major division of the university, consolidated two nursing schools and two law schools, as well as the creation of Rutgers Health and a partnership with RWJ Barnabas.

The university has successfully merged two payroll systems and consolidated other financial and information systems that will facilitate multiyear financial and capital planning. In addition, it has built out senior staff to include a chief enterprise risk, ethics, and compliance officer and chief investment officer for its endowment in recognition of its growing enterprise. Favorably, the university has completed almost all union agreements, which will remain in place for several more years, providing additional stability

Rutgers current president agreed to continue his term through fiscal 2020 to coincide with the first years of the partnership with RWJ Barnabas Health. His replacement was recently announced and will bring extensive higher education leadership from leading research institutions.

Rating methodology and scorecard factors

The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

Rutgers, The State University of New Jersey, NJ

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Market Profile (30%)**		
	Scope of Operations (Operating Revenue) ($000)	4,274,613	Aaa
	Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	8.4	Aaa
	Strategic Positioning	A	A
Factor 2:	**Operating Performance (25%)**		
	Operating Results (Operating Cash Flow Margin) (%)	8.8	A1
	Revenue Diversity (Maximum Single Contribution) (%)	32.9	Aaa
Factor 3:	**Wealth & Liquidity (25%)**		
	Total Wealth (Total Cash & Investments) ($000)	2,170,743	Aa1
	Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	0.3	A1
	Liquidity (Monthly Days Cash on Hand)	87	A2
Factor 4:	**Leverage (20%)**		
	Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	0.7	A1
	Debt Affordability (Total Debt to Cash Flow) (x)	5.4	Aa1
	Scorecard-Indicated Outcome		Aa2
	Assigned Rating		Aa3

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Source: Moody's Investors Service

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