S&P Global Ratings

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Summary:

Rutgers University, New Jersey; CP; Private Coll/Univ - General Obligation; Public Coll/Univ - Unlimited Student Fees

Primary Credit Analyst:
Ken W Rodgers, New York (1) 212-438-2087; ken.rodgers@spglobal.com

Secondary Contact:
Laura A Kuffler-Macdonald, New York (1) 212-438-2519; laura.kuffler.macdonald@spglobal.com

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Credit Profile		
US$750.0 mil commercial paper prog		
Short Term Rating	A-1	New
Rutgers Univ PCU_USF		
Long Term Rating	A+/Negative	Affirmed

Rating Action

S&P Global Ratings assigned its 'A-1' commercial paper (CP) rating to Rutgers University, N.J.'s $750 million authorized general obligation CP with an expected issuance of up to $200 million anticipated later this fall. In addition, S&P Global Ratings affirmed its 'A+' long-term rating on Rutgers' outstanding bonds (various series) and our 'A+/A-1' rating on its $60.7 million series 2009G GO variable-rate demand bonds (VRDBs). The outlook, where applicable, is negative.

Credit overview

Total pro forma debt is currently $2.3 billion, and total outstanding debt was $2.0 billion as of the university's latest audited fiscal year ended June 30, 2019. Incorporated in the pro forma debt is Rutgers' $223.5 million series 2020S taxable refunding bond issue that closed in August 2020 and the aforementioned potential CP issuance.

Rutgers' bonds are secured by the university's available funds, which includes a broad range of funds, and we consider this pledge to be equivalent to an unrestricted student fee pledge. We rate both Rutgers' CP program and the short-term component of the variable-rate debt obligations 'A-1', reflecting our assessment of liquidity the university can readily access to support its CP program from cash, U.S. treasuries and agencies, money market funds, and a dedicated strong supplemental external bank liquidity facility totaling $200 million from Wells Fargo Bank that expires on April 10, 2021, whereas the series 2009G VRDBs are solely supported by a standby bond purchase agreement from TD Bank that expires on July 1, 2023. We understand Rutgers intends to limit its CP issuance to $50 million maturing on any one day. As of Aug. 31, 2020, Rutgers identified approximately $769.51 million in discounted assets (unaudited), inclusive of the $200 million Wells Fargo Bank liquidity facility, to cover the program authorization amount of $750 million and providing multiple times coverage of the anticipated issuance of up to $200 million in CP within the next year.

Credit Opinion

While there is a high level of uncertainty regarding the duration and extent of the effects of the COVID-19 outbreak, we believe that Rutgers has taken prudent steps at this point to address its COVID-19 concerns. In mid-March, the university transitioned to a fully online format and completed the remainder of the spring semester and summer sessions remotely. A majority of faculty and staff are working remotely while some emergency personnel and other essential workers have remained on campus. Rutgers' international student headcount is approximately 8,150 out of its 71,000 student population, or roughly 11%. However, historically Rutgers has had strong demand domestically and with the pandemic, more of the state's college-bound population may choose to stay in-state rather than leave as had often been the case in the past.

The pandemic has resulted in the refunding of certain student charges, recognition of additional expenses, and is expected to adversely affect numerous sources of revenue including enrollment in future academic sessions, auxiliaries (primarily housing and dining), intercollegiate athletic events and athletic conference revenue sharing, income generated by medical facilities and services, and fundraising, according to university officials. Refunds for college tuition and most mandatory fees have not been issued as classes were conducted online; however, the university issued prorated refunds on student room, board and parking fees of approximately $45 million for the spring semester. Also, on March 23, 2020, the governor announced a state spending freeze that resulted in the loss of approximately $46.8 million in state appropriations for the university through June 30, 2020.

The university received approximately $54 million under the Coronavirus Aid, Relief, and Economic Security Act, of which at least $27 million is required to be allocated to students as emergency financial aid grants. The university has also taken many other measures to blunt the adverse impact of the pandemic including instituting a hiring freeze, salary reductions for key administrators, travel suspension, furlough programs, and freezing discretionary spending to name just a few. On July 6, Rutgers' new president, Jonathan Holloway, announced that the majority of courses for fall 2020 semester would be delivered remotely with only a limited number of in-person classes, with on-campus housing extremely limited. No decisions have been made yet about winter session or spring semester. The university is in the process of closing its books on fiscal year 2020 and management indicates that no firm conclusions about financial performance can be offered yet. However, the university firmly believes an earlier estimate of a $200 million adverse revenue impact from the COVID-19 pandemic has been substantially reduced by the actions cited above and other positive developments such that the forecasted use of reserves for fiscal year 2020 is now expected to be approximately $60 million. On Oct. 7, 2020, Rutgers' Board of Governors approved a revised budget for fiscal year 2021, superseding a working budget adopted earlier this summer in recognition of the state's shift in its fiscal year end to Sept. 30 from June 30. Rutgers' earlier fiscal year 2021 working budget estimated a deficit of $153.6 million or negative 3.6% and this has been reduced to a deficit of $97.1 million or negative 2.3% in its revised budget.

The long-term rating reflects our view that Rutgers' enterprise profile is very strong, characterized by its role as the flagship University of New Jersey's higher educational system, consisting of 11 public colleges and universities, with favorable enrollment, retention, and graduation rates. In addition, the rating reflects our view that Rutgers' financial profile is strong with sound financial management policies, a respectable debt burden and healthy available resources, though financial operating performance is variable on an adjusted full accrual basis with breakeven and a negative 1.9% margins in fiscal years 2017 and 2018, respectively, and a positive 1.5% margin in 2019. Although we deem available resources healthy nevertheless, they trail adjusted unrestricted net assets (UNA)-to-debt (and pro forma debt) median ratios for the rating category. Also, Rutgers' net pension liability decreased by 2.3% in fiscal 2019 to $1.7 billion from $1.8 billion in fiscal 2018, largely owing to changes in plan assumptions administered by New Jersey. Our understanding is that New Jersey, as a matter of practice, supports its public university's pension and other postemployment benefit (OPEB) obligations. Combined we believe these credit factors lead to an indicative standalone credit profile of 'a+' and long-term bond rating of 'A+'.

The long-term rating and negative outlook further reflect our assessment of Rutgers':

- Favorable stature as New Jersey's flagship public university;
- Growing full-time equivalent enrollment increasing almost 0.6% in fall 2019 to 62,491 from 62,105 in fall 2018, somewhat selective admissions, and good student quality;
- Financial operating performance that in most of the past five fiscal years on an adjusted full-accrual GAAP basis has been breakeven or better, except for fiscal 2018's negative 1.9% operating deficit;
- Healthy available resources, although adjusted UNA declined to 13.5% of adjusted operating expense in fiscal 2019 from 14.6% in fiscal 2018 and is 26.7% of pro forma debt; and
- Moderate pro forma debt of $2.3 billion with a 4.6% pro forma MADS debt burden that smooths the total debt amortization over 30 years to adjust for long-dated bullet maturities and includes an anticipated up to $200 million of CP notes that may be issued later this fall.

The negative outlook reflects the heightened risks Rutgers faces associated with the financial toll caused by the COVID-19 pandemic and related recession. In our view, Rutgers has less holistic flexibility (from both a market position and financial standpoint) at its current rating level. Although liquidity, as measured by available resources compared to debt and operating expenses, was the primary metric assessed, Rutgers' overall credit profile, including draw, selectivity, matriculation rates, operating margins, and revenue diversity, was also considered. In addition, reliance on state operating appropriations and expectations around future funding levels is an important part of this assessment. A negative outlook reflects our view that there is at least a one-in-three chance that operating and economic conditions will worsen to a degree that affects the ability of a college or university to maintain credit characteristics in line with the current rating level.

Rutgers' is a large research focused university with a large breadth and depth of academic offerings and many facilities with locations in all 21 New Jersey counties, three main campuses, and four operating units that make it a major public university system; there are 32 schools and colleges within the four operating units: Rutgers University-New Brunswick, Rutgers University-Newark, Rutgers University-Camden, and Rutgers Biomedical and Health Sciences.

The dual rating applicable to the series 2009G bonds reflects the 'A+' long-term rating on Rutgers' stand-alone credit quality and the short-term ratings reflect a standby bond purchase agreement (SBPA) liquidity facility provided by TD Bank that expires on July 1, 2023. The SBPA will only enhance the bonds in the daily and weekly interest-bearing-rate mode (the covered modes). The SBPA provider's obligation to purchase un-remarketed tendered bonds during the covered modes will terminate without notice to bondholders should various events outlined in the SBPA occur, including the lowering of the long-term component of the rating to below 'BBB-'. We have reviewed these events and deemed them consistent with our published ratings criteria.

The university reports that its "Our Rutgers, Our Future" capital campaign closed in December 2014 and raised $1.04 billion, exceeding its $1 billion goal. We also understand gifts and pledges received for the benefit of the university totaled $250.9 million and $223.4 million in fiscal years 2019 and 2018, respectively. In addition, for fiscal 2020 Rutgers anticipates gifts and pledges of $240.4 million. We also understand Rutgers received $100 million in fiscal 2019 from its partner RWJ Barnabas Health pursuant to a master affiliation agreement signed in July 2018. Furthermore, beginning on July 1, 2019, Rutgers commenced the silent phase of its next campaign. Rutgers' endowment realized an 11% increase to $1.37 billion at fiscal year-end 2019 compared with the prior year.

We rate Rutgers' debt above the rating associated with New Jersey. We believe this differential is warranted. Our view in this matter recognizes that Rutgers derives a fair amount of financial support from the state for its operating appropriation, limited capital support, and costs associated with its fringe benefits. Nevertheless, Rutgers derives the majority of its revenue, approximately 77% in fiscal year 2019, from non-state supported sources including tuition and fees, grants and contracts revenue, auxiliary operations, and health care and professional services revenue. In addition, we view Rutgers' available resources as healthy and further enhanced by its robust philanthropic support. However, any rating action affecting the rating on the state could become a greater factor in our future assessment of the rating on Rutgers.

Environmental, social, and governance factors

Because of the COVID-19 pandemic, Rutgers' management team moved to implement remote learning to protect the students' health and safety and limit social risks associated with community spread of COVID-19. We view health and safety issues as a social risk under our environmental, social, and governance factors. In our view, Rutgers, similar to other higher education institutions, will face challenges should the pandemic persist beyond the current school year, and this could negatively impact fall 2020 enrollment and fiscal 2021 operating results. Elevated social risks due to decreasing enrollment could also pressure finances. Despite this, we consider management and governance risks in-line with its higher-education-sector peers.

For additional information on Rutgers University please see the analyses published July 23, 2020, and Feb. 28, 2020.

Negative Outlook

Downside scenario

A lower rating is possible if enrollment declines significantly, financial operating performance on an adjusted full accrual GAAP basis is negative, or available resource ratios become further constrained relative to operations and debt. In addition, issuance of additional debt without a commensurate increase in available resources could lead to consideration of a lower rating. Though we think the university has taken proactive steps to address COVID-19, we understand the virus to be a global risk, and could consider a negative rating action should pressures related to the pandemic materially affect enrollment, demand, or finances.

Return to stable scenario

We could revise the outlook to stable if the university's financial performance and available resources improve sufficiently to offset risks associated with the COVID-19 pandemic and its economic fallout, increasing exposure to health care operations and flat to declining state operating appropriation.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 16, 2020)		
Rutgers Univ GO bnds (Federally Taxable) ser 2019R dtd 10/31/2019 due 05/01/2043		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ GO rfdg Bnds ser 2020S dtd 03/11/2020 due 06/15/2046		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_GO		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_GO		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_GO		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_GO		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_GO		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_GO		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_USF		
Long Term Rating	A+/A-1/Negative	Affirmed
Rutgers Univ PCU_USF		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_USF		
Long Term Rating	A+/Negative	Affirmed
Rutgers Univ PCU_USF (FGIC) (National)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
New Jersey Econ Dev Auth, New Jersey		
Rutgers Univ, New Jersey		
New Jersey Econ Dev Auth (Rutgers Univ) PCU_USF		
Long Term Rating	A+/Negative	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed