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Fitch Ratings: Review Completed for New Jersey Public Universities

Fitch Ratings-Chicago-25 November 2019: Fitch Ratings has completed its review of ratings on five public universities in New Jersey that were placed Under Criteria Observation (UCO) following the publication of revised U.S. College and University Rating Criteria in June. This review resulted in the following rating actions:

- The College of New Jersey, downgraded to 'A+' from 'AA-'; Outlook revised to Stable from Negative;
- Montclair State University, downgraded to 'A+' from 'AA-'; Outlook Stable;
- New Jersey City University, downgraded to 'BBB' from 'A-'; Outlook revised to Negative from Stable;
- Stockton University, affirmed at 'A-'; Outlook Stable;
- William Paterson University, downgraded to 'A-' from 'A'; Outlook revised to Negative from Stable.

Although four of the five ratings were downgraded, for all but one institution (Montclair), the downgrade was driven by changes in underlying credit characteristics rather than implementation of the revised criteria. Montclair's rating change was the result of both credit and criteria considerations. Fundamental credit considerations included a competitive demand environment and challenging demographic characteristics, broad reliance on student-fee generated revenue, and effectively flat state operating support which has not kept pace with expense growth. Importantly, Fitch expects that state support will remain generally flat for the foreseeable future, which may contribute to further pressure on margins. While other specific credit considerations played a role, the ratings reflect an increasingly competitive environment contributing to constrained ability to increase tuition rates and reduced expense flexibility, compounded by the presence of significant long-term liability burdens. High debt loads at most institutions are in part a result of historically minimal state capital support, and Fitch expects that the higher level of state capital support in the past few years will not continue.

Within our criteria framework, Fitch considers leverage only in the context of the institution's revenue and operating profile. While leverage is measured inclusive of all long-term debt and pension obligations, consideration of this metric is strengthened by the state of New Jersey's (IDR of A/Stable) consistent support of pension contributions for university employees, despite the absence of any legal requirement to do so. We also note that the state has taken some action to improve funding of its pension obligations, which should reduce the reported liabilities of the plans incrementally over time. At the same time, Fitch notes that increasing its pension contributions to the actuarial requirement may ultimately squeeze the state's other funding priorities in times of pressure, presenting some risk of volatility in state support of public higher education.

Overall, Fitch has reviewed substantially all 28 institutions placed UCO with release of the revised criteria. Of those, about two thirds saw rating changes with a nearly 60/40 split of upgrades to downgrades. Of the rating changes, approximately 30% were the sole result of the reframing of the criteria while the remainder were a combination of criteria and credit driven actions.

For more information on the individual rating actions, or for more information on the revised criteria, please go to www.fitchratings.com.

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