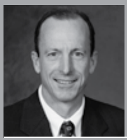
February 2010 Vol. 9 No. 1

Building futures

NJEFA

Viewpoint

A Home Grown Stimulus Package For New Jersey's Future



By Ridgeley Hutchinson
NJEFA Member

What could be a better remedy for these difficult economic times than enhancement of our colleges and universities with the construction of new facilities? Certainly the NJEFA has been doing its part. NJEFA members recently authorized $365 million of bond issuance for capital improvement loans at several of New Jersey's higher education facilities for 2010. An additional $65 million of new project financing is pending members' approval in the next few months. Furthermore, over the past decade, the Authority has advanced more than $4 billion for facility improvement loans.

Recent statistics confirm the enormous impact that the construction of our higher education facilities has on the State's economic prosperity. One study done by Princeton University concluded that the $100 million it spent on construction in fiscal year 2007 generated $275 million in additional economic activity and created more

continued on page 6

BABs' Popularity Grows as NJEFA issues first BABs for TCNJ

According to The Bond Buyer, 2009 was the "second-heaviest slate of debt in the history of public finance." Total municipal market issuance for the year was $409.2 billion, trailing 2007's record volume of $427.9 billion. The biggest reason for the growth in issuance was the popularity of the Build America Bonds program (BABs), which was created by the American Recovery and Reinvestment Act signed by President Obama in February, 2009.

The BABs program allows qualified governmental issuers to sell taxable bonds and receive a federal subsidy equal to 35% of the interest costs. Under the current program, BABs can be issued only by states or other governmental entities. Industrial development bonds and not-for-profit issuers, among others, are not currently eligible to participate. In addition, 100% of the proceeds must be used for new capital projects, which means that refundings and working capital financings are also ineligible.

continued on page 6

Rendering of the new Education Building at The College of New Jersey

Meeting Critical Challenges for NJ Higher Education

By Roger L. Anderson, *NJEFA Executive Director*

Roger L. Anderson

Over the last ten years, the Authority completed $8.3 billion in financings for New Jersey's colleges and universities. Of that amount, $4.5 billion financed new campus projects of every size and type across the State. Such growth was not unique to New Jersey. As Kathy Clupper notes on page 4, nationally, the decade saw annual issuance volume for higher education triple.

Capital investments have transformed New Jersey colleges' campuses and enabled them to serve nearly 100,000 more students today than they did 10 years ago. New Jersey's public colleges alone have increased their residential capacity nearly 35% in that time, and, across all sectors, the number of degrees and certificates conferred each year has risen by nearly 20,000 over that period.

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Despite such progress, the need is still great. In the last year, New Jersey has slipped to 46th in the nation in per capita capacity at 4-year public colleges and universities. Because of limited space, at least in part, New Jersey ranks 1st in the country in the number of students (30,000 annually) that leave to attend college elsewhere.

Yet New Jersey needs those students. Governor Christie has said, "Higher education goes hand in hand with New Jersey's long-term economic viability. Giving our students and workers the skills they need to be competitive in today's emerging industries will ensure both New Jersey's economic growth and job creation."

New Jersey's colleges are struggling to invest in the facilities needed to serve growing numbers of students. Most of the investments of the last decade by four-year institutions have been from their own resources, often leading to increased tuition and student fees.

NJ Enrollment: Degrees Conferred (2000-2009)

	Total Enrollments	Total Degrees / Certificates
2000	335,930	52,579
2001	346,277	53,205
2002	361,757	55,866
2003	372,696	58,277
2004	379,447	61,428
2005	379,686	64,007
2006	385,612	65,105
2007	398,169	66,364
2008	410,193	69,357
2009*	429,871	71,749
Cumulative Increase	93,941 (27.96%)	19,170 (36.45%)

* Preliminary Total Enrollment numbers

Source: New Jersey Commission on Higher Education

County colleges are the focus of much of the federal and State efforts to increase access to higher education. County college enrollment is up 12% this year alone. As President Rose states on page 3, the State's Chapter 12 program, however, has not kept pace with the colleges' need for facilities to serve their burgeoning enrollments. They too may be forced to use their own resources to develop such facilities, which costs must eventually be paid by students.

Both federal and State leaders have increasingly recognized the centrality of higher education to economic improvement. Last year's federal stimulus legislation created Build America Bonds (BABs), which, as described on page 6, have already resulted in significant financing savings for one New Jersey institution. As that same article describes, President Obama has proposed expanding the use of BABs to include private colleges as well. In addition, the EFA has requested the authority to finance working capital loans and public/private partnerships. Both are ways to lower project costs without any adverse impact on the State budget. Both await legislative approval.

The Authority looks forward to helping NJ's colleges and universities build on their progress. We are committed to financing campus facilities at the lowest cost possible, so that colleges can continue to meet the interwoven challenges of excellence, access and affordability. ■

In my opinion

Community Colleges Build for the Future

By Steven M. Rose, President
Passaic County Community College

In 1947, the President's Commission on Higher Education issued a report, popularly known as The Truman Commission Report, that called for the establishment of a network of public community colleges that would charge little or no tuition, serve as cultural centers, be comprehensive in their program offerings with emphasis on civic responsibilities, and serve the area in which they were located. This is now seen as the birth of the community college movement, and it opened the doors of higher education to many who never had imagined such opportunities. Currently, the nineteen community colleges in New Jersey serve over 175,000 students in degree programs and another 125,000 in continuing education and workforce development programs, making it the largest sector of higher education in New Jersey. New Jersey's community colleges are entrepreneurial and provide the education and training necessary to support the real world needs of the business community.

"Currently, the nineteen community colleges in New Jersey serve over 175,000 students in degree programs and another 125,000 in continuing education and workforce development programs, making it the largest sector of higher education in New Jersey.

In his first address to a joint session of Congress, President Obama set the goal that "America will once again have the highest proportion of college graduates in the world" and identified community colleges as key in meeting this goal. From fall 2008 to fall 2009, New Jersey community colleges saw enrollments surge by 12% to an all-time high, and future growth seems certain. Managing the dramatic growth of our colleges has been a major challenge, particularly in developing the facilities to support the diversity of programs our colleges offer. The nineteen community colleges operate over 60 campuses with locations in all 21 counties. Facilities are primarily built through the "Chapter 12" program. The Chapter 12 program is a revolving fund. That is, as principal on the bonds is retired each year, it can be reissued for new capital projects. Each year the New Jersey Council of County Colleges recommends new construction and renovation projects for approval by the State Treasurer. Upon approval by the Treasurer, bonds are issued with the State and the counties paying equal shares of the annual debt service. This has been a very successful program for community colleges, allowing them to meet ever increasing demands.

Community colleges play a very significant role in the economic vitality of our State. When the economy falters, community colleges assume an important role in producing a lasting recovery. The depth of our current economic problems has put an even greater spotlight on community colleges. Community colleges are not only focused on educating students for jobs that currently exist, but concentrate on future workforce demands.

However, despite a $200 million increase to the Chapter 12 program in 2004, our colleges are struggling to develop adequate facilities to meet the demand. While the present level of funding supports the maintenance of current facilities, it does not support meaningful expansion. In addition, training students for 21st century jobs often involves specialized facilities which are costly to construct. We are fortunate that the EFA stands ready to help community colleges finance needed facilities. Unlike Chapter 12 financing, however, the colleges themselves will have to repay such debt, and that means the colleges will have to find additional resources to cover such costs. Nonetheless, New Jersey's community colleges are committed to doing whatever is necessary to meet our increasingly important mission. ■

Higher Education Financing—A Decade in Review

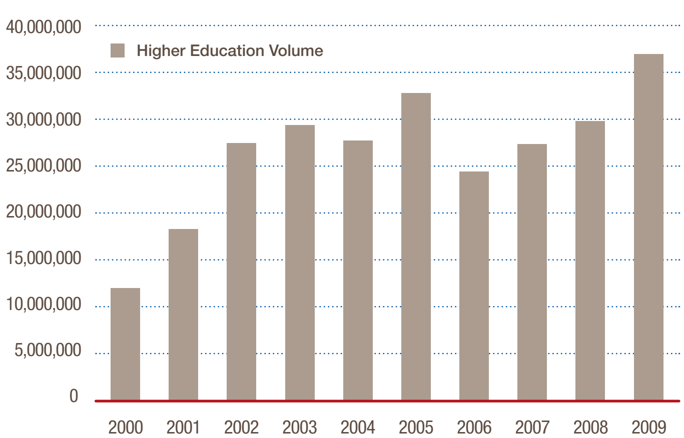
By Katherine Clupper, Managing Director, Public Financial Management, Inc.

The financial markets witnessed some extraordinary events in the last two years, yet the last decade is equally stunning. Beginning in early 2000, the dot-com bubble burst and on April 14, 2000, the Dow Jones dropped 618 points, the third largest daily drop ever. In fact, this decade includes the top six single day losses in the history of the Dow Jones, and four of those days occurred in 2008 alone. 2001 witnessed the tragedy of September 11th and, when the markets reopened on September 17th, the Dow Jones suffered its second largest single day loss.

Bankruptcies have also shaken the market throughout the decade beginning with Enron in 2001 and more recently with Lehman Brothers and Washington Mutual. It is no wonder that the discussion of what to name this decade continues, the "Zeros," the "Ohs," the "Oughts" or the "Naughts," because it has been difficult to identify the correct reality.

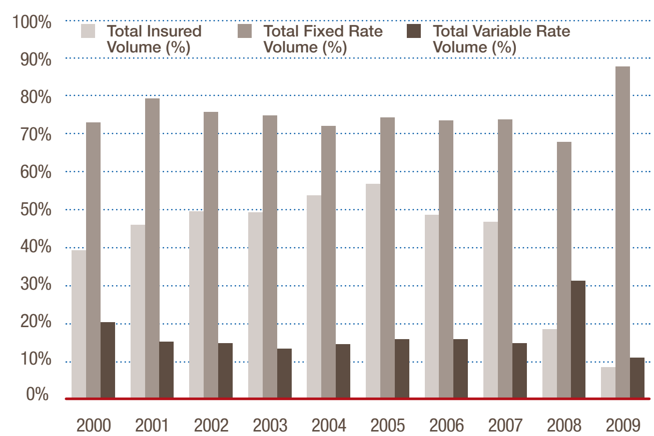
As many colleges and universities are painfully aware, this decade has also fundamentally changed the approach, cost and utilization of the capital markets to fund capital needs. Total volume in the municipal market has doubled from $220.8 billion issued in 2000 to $409.2 billion in 2009. Higher education mirrored this amazing growth by starting this decade issuing $12 billion and ending in 2009 issuing 3 times that amount. Yet, what these statistics do not show are the fundamental changes in the market and their impact going forward.

Higher Education Volume ($000)



The first change is the difference between what debt has looked like and will look like going forward. The average size of a transaction has increased from $25 million in 2000 to $58 million in 2009. In 2009, the percentage of education bond transactions that were fixed rate was at an all time high of almost 95%, with the percentage of variable rate volume at 5%, the low since 2000. In 2008 there were 352 education issues that were secured by a letter of credit, compared to only 70 issues in 2009. While the letter of credit market is becoming more robust since the depths of 2009, cost is still high and terms are still cumbersome. There were virtually no auction rate securities issued for the past two years, in comparison to $42 billion in 2004. We expect that the percentage of bonds issued as fixed rate will continue to comprise most of the new issuance going forward. While the use of letters of credits and derivatives will not completely disappear, the reliance on these types of structures for new issues are not expected to approach the volume seen in 2006 and 2007.

Percentage of Total Municipal Debt Inssues: Fixed Rate, Variable Rate and Insured Bonds (2000-2009)



The most dramatic change in the market is the disintegration of the bond insurance providers. In 2000, 39% of the total tax-exempt volume was issued as insured bonds. This percentage increased annually to reach over 57% in 2005. In contrast, last year's penetration was less than 9%. The ramification for higher education borrowers is the increasing importance of underlying credit ratings. Credit spreads have also significantly increased, which will make the cost of borrowing more expensive for lower rated colleges and universities.

continued on page 7

2010 Washington Developments Affecting Higher Education Financing

By Charles A. Samuels, Mintz Levin, Counsel
National Association of Health and Educational Facilities Finance Authorities

NJEFA and other authorities which issue tax-exempt bonds for public and private colleges and universities expect a busy year in Washington with significant legislative and regulatory reform initiatives on the horizon from both Congress and the SEC. New Jersey's continued leadership and participation in Washington debates are critical to ensuring Washington's realistic response to financial crises and to protecting new financing provisions which have made the municipal financial markets more viable.

Among municipal bond provisions expected to be introduced and/or considered in financial services regulatory reform and similar legislation are proposals to regulate financial advisors by either the SEC or the MSRB, and efforts to create more uniform ratings for municipal and corporate securities in order to obtain a "level playing field" for all securities. Also expected are proposals to extend and increase disclosure requirements for bond borrowers such as colleges and universities.

With regard to the latter, on the regulatory side, we expect finalization of SEC and MSRB proposals for new voluntary and mandatory disclosure and perhaps extension of requirements to include information on swaps, derivatives, variable rate debt and other issues. MSRB's new "EMMA" system hopefully will prove to be an efficient vehicle for disclosures.

On these and other initiatives, our goal is to ensure that reaction to the financial market collapse and lack of proper regulation and government oversight of financial institutions not be used as an excuse to authorize or impose wholesale new regulation in the municipal bond sector. For example, disclosure practices in our market usually are quite good. The federal government should not reactively require more information, more often, and with shorter deadlines which may not be feasible for colleges and universities who have limits on how quickly audited reports, for example, can be finalized.

Another high priority, which we will continue to advocate, will be to extend or make permanent "bank deductibility" and "FHLB Letter of Credit" provisions which provide greater access to capital at lower costs for educational institutions in New Jersey and across the country. These provisions encourage bank purchase of smaller institution debt and banks stepping up to provide letters of credit where bond insurance has proven non-functional or non-existent. The special provision which allows state conduit issuers like NJEFA to issue "bank qualified" debt of $30 million or less enhances the ability of the Authority to serve the education community. Authorizing the Federal Home Loan Banks to back their member bank's letters of credit has proven to be helpful in many instances in the last year where institutions are suffering from the collapse of the bond insurance industry.

"Our goal is to ensure that reaction to the financial market collapse and lack of proper regulation and government oversight of financial institutions not be used as an excuse to authorize or impose wholesale new regulation in the municipal bond sector.

Finally, during the coming year, NJEFA and other state authorities will be determining their views on whether and how the popular Build America Bonds program, which provides taxable bonds subsidized by the Federal Government, might be extended in the non-profit educational sector.

The year 2010 should turn out to be quite interesting—stay tuned. ■

BABs' Popularity Grows as NJEFA issues first BABs for TCNJ

continued from page 1

NJEFA forayed into BABs for the first time with its recently completed financing on behalf of The College of New Jersey (TCNJ). Proceeds will be used to finance the construction of a new 70,000 sq. ft. facility (pictured on page 1) to house the College's School of Education. The $44.5 million deal consisted of a small tax-exempt component and $41.1 million of taxable BABs. This hybrid structure enabled the Authority and the College to capture the lowest all-in cost across the tax-exempt and taxable markets, retain a ten-year par call and provide overall level net debt service. The result was that the College achieved a 4.745% all-in true interest cost, equating to nearly $3.9 million (53bps) in estimated net present value savings over a pure tax-exempt financing at the time of sale.

The issuance window for BABs began on February 17, 2009 and is set to expire on December 31, 2010. Due to the popularity of the program and success in generating both investor interest and new capital project development, the President has proposed to make the program permanent; to expand eligible issuers to include not-for-profits, among others; and to lower the subsidy from its current 35% level to 28%.

The Authority regularly monitors developments in Washington that affect the municipal marketplace and its clients' financings. We are closely watching for any change with regard to the BABs program that could be beneficial to colleges and universities in the future.

For more information about the Build America Bonds program, and how it might benefit capital financing plans of public colleges and universities in New Jersey, call the Authority's Director of Project Management, Mary Jane Darby, at 609-987-0880. ■

Viewpoint

continued from page 1

than 1,740 full-time jobs. In a county-wide survey, the five institutions of higher learning in Mercer County spent nearly $1 billion in capital investments during fiscal years 2001-2005. Those investments generated $1.8 billion in spending throughout the State and 2,741 construction-related jobs.

Although the construction of a college building may be considered a short-term job, it is often a builder's dream come true. The details and design components of an academic or science building result in thought-provoking and attractive structures. Building officials at institutions of higher learning have always endeavored to make their new buildings educational examples for their architecture and engineering students. In addition, now that the green revolution is here, students can see the value of these innovations first hand. The attention given to these structures adds up to more man hours per square foot and creates challenging opportunities for the construction personnel involved in such projects.

That New Jersey's higher education institutions enhance our State's prosperity and competitiveness is incontestable. Indeed, the Authority was conceived in order to improve the quality and capacity of facilities that, until then, had been lacking financial resources. New Jersey's colleges and universities are struggling more than ever to meet high demand. There has been a steady increase over the past ten years of nearly 20,000 high school graduates. Although a disappointing number of those graduates still go out of state for their college education, the recent economic downturn has increased pressures on state institutions that need to accommodate families looking for lower-cost alternatives within New Jersey.

There is no question that New Jersey is able to offer a wide selection of high-quality, affordable opportunities. As I write this article, Kiplinger's Personal Finance magazine announced that, among private colleges, Princeton University ranks second for giving students the most value and that, among public colleges, The College of New Jersey ranks twenty-third.

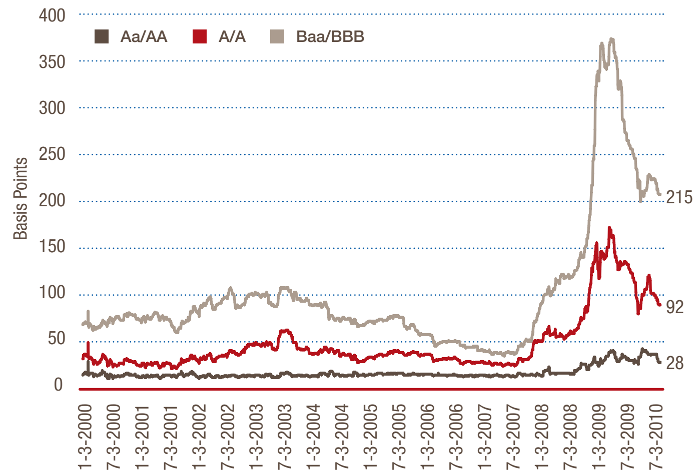
During these challenging economic times, it is important for us to recognize the major contributions our colleges and universities have always made to New Jersey and to their respective communities. With shrinking endowments and severely depleted government assistance, it is encouraging to know that our schools can count on the NJEFA to finance the capital improvements that they so desperately need.

Higher Education Financing—A Decade in Review

continued from page 3

Moody's expects the current economic climate will continue to put stress on higher education this year, although some pressures are easing. Those institutions that are planning to issue debt for capital projects will have to prepare for increased pressure on tuition revenues and potential negative trends in gift giving and investment returns while balancing the increased cost of debt. This could certainly make capital planning by colleges and universities in the next decade as difficult as it has been in the decade of the Oughts, Naughts, Ohs or whatever. ■

Revenue Spreads to AAA MMD



> *"Moody's expects the current economic climate will continue to put stress on higher education this year, although some pressures are easing.*

NJEFA Financings Closed in 2009

INSTITUTION	PROJECT/PURPOSE	CLOSING DATE	PAR AMOUNT
Montclair State University	Student Housing Facility	1/23/09	$27,545,000
University of Medicine and Dentistry	Debt Restructuring	4/15/09	$258,075,000
Princeton Theological Seminary	Refunding	4/30/09	$14,435,000
Seton Hall University	Acquisition of Laptops	5/27/09	$3,371,289
Kean University	Debt Restructuring	6/24/09	$179,380,000
Seton Hall University	Refunding	11/13/09	$7,955,000
		TOTAL:	**$490,761,289**

NJEFA Financings Closed to Date 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
		TOTAL:	**$363,285,000**

Announcements

Staff Promotion:

Debra L. Paterson was named Senior Risk Manager for the Authority in May. In her new position, Ms. Paterson is responsible for matters relating to real estate for bond transactions, including tracking real estate owned by, or mortgaged to, the Authority; preparing relevant records and documentation; and determining title insurance requirements. Ms. Paterson also assists the Authority's Director of Risk Management in post-issuance compliance and other risk management areas. She is a graduate of Mercer County Community College and Georgian Court University.

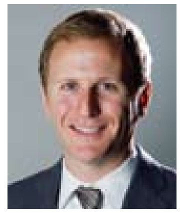
New Staff Member:

Jennifer M. Soyka, Esq. joined the Authority as Project Manager in August. Her responsibilities include management of debt issuance by the Authority.

Ms. Soyka brings over 10 years experience in public finance law to the Authority, most recently, as an associate in the law firm of McCarter & English, LLP, and prior to that, in the firms of Wilentz, Goldman & Spitzer, P.A. and McManimon & Scotland, L.L.C. Ms. Soyka's experience includes a wide range of financing structures including general obligation bonds, school district bonds, certificates of participation, and revenue financings with fixed rate, variable rate, auction rate and hybrid structures, as well as interest rate swap agreements and other derivative products.

Ms. Soyka received a Bachelor of Arts in History as well as her Juris Doctor from Washington University in St. Louis.

New Member:



Joshua E. Hodes

Joshua E. Hodes was recently welcomed as a new member of the Authority. Mr. Hodes was appointed in January to serve a four-year term. He brings extensive experience in government relations and is currently Chief of Staff to Assembly Majority Leader, Joseph Cryan.

Previously, Mr. Hodes served as an Associate of Public Strategies Impact where he represented a variety of clients' interests and specialized in the areas of banking, healthcare, energy, and project development. He has served as Associate Director of Athletic Development for the Rutgers University Foundation where his fund raising efforts helped provide educational opportunities for Rutgers' 800 student athletes. During the 2008 Presidential Campaign, he also served as a political advisor to the Hilary Clinton for President Campaign in New Jersey.

Mr. Hodes is a graduate of Rutgers where he received both a Bachelor of Science and a Master's of Labor and Employment Relations.

> *"Education and innovation will be the currency of the 21st Century.*
>
> – President Barack Obama,
> Cairo University, Cairo, Egypt

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

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2010 Board Calendar
February 24
March 24
April 28
May 26
June 23
July 28
August 25
September 22
October 27
November 24
December 22

Meeting dates subject to change.