Moody's Investors Service

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New Issue: Rutgers, The State University of New Jersey

MOODY'S ASSIGNS A P-1 SHORT-TERM RATING TO RUTGERS UNIVERSITY'S GENERAL OBLIGATION COMMERCIAL PAPER; OUTLOOK IS STABLE

RATINGS AFFIRMED ON OUTSTANDING DEBT; TOTAL OF $795 MILLION RATED DEBT OUTSTANDING ASSUMING COMMERCIAL PAPER AT $200 MILLION ISSUANCE LIMIT

Higher Education
NJ

Moody's Rating

ISSUE	RATING
General Obligation Commercial Paper	P-1

Sale Amount	$200,000,000
Expected Sale Date	02/28/07
Rating Description	Public Higher Education Commercial Paper

Moody's Outlook Stable

Opinion

NEW YORK, Feb 26, 2007 -- Moody's Investors Service has assigned a P-1 short-term rating with a stable outlook to Rutgers University's General Obligation Commercial Paper. The Commercial Paper program is comprised of four series - Series A (Tax-Exempt), Series B (Tax-Exempt), Series C (Federally Taxable) and Series D (Extendable Tax-Exempt). Liquidity support for maturing CP issuances will be provided through a $200 million Standby Commercial Paper Agreement by Wachovia Bank, N.A. (rated Aa2, P-1) and the University will be responsible for interest payments. As a result, the P-1 rating is based on the combined strength of the Standby Commercial Paper Purchase Agreement and the University's general obligation pledge.

At this time, Moody's has also affirmed the Aa3 ratings on the University's outstanding long-term debt, detailed in the RATED DEBT section below. The security for all of these bonds is either a general obligation of Rutgers or a broad pledge of revenues that is virtually as strong as a general obligation. The University also has guaranteed the debt service fund until 2007 for the Middlesex County Improvement Authority (George Street Student Housing Project) Series 2004A bonds, rated Baa1.

USE OF PROCEEDS: Issuances under the program will be used to currently refund the outstanding Revenue Bonds Series 1997A and other debt obligations depending upon market conditions, as well as finance various capital projects on the University's New Brunswick, Newark and Camden campuses. To provide flexibility for short and longer term financing needs, as well as the potential for taxable uses, the program has been divided into four series which on a combined basis cannot total more than $200 million aggregate at any one time.

LEGAL SECURITY: General obligation of the University, payable from all legally available revenue and fund balances and on parity with other general obligations debt. Although the program is authorized by the Board of Trustees for $500 million, the aggregate principal amount of commercial paper outstanding cannot exceed the $200 million provided under the Liquidity Facility.

INTEREST RATE DERIVATIVES: Rutgers University has entered into three forward interest rate swaps to hedge its variable rate exposure. The counterparties for the swaps are Merrill Lynch ($100 million notional effective May 2008), Bank of New York ($22.415 million effective May 2007) and UBS ($13.5 million effective May 2007). The University pays fixed in all swaps and receives floating rate. Regular swap payments are on parity with the University's debt service obligations; any required payments due to swap termination of a swap are considered subordinate to debt service payments. The terms of the swaps provide for termination upon a downgrade of the rating below Baa3, and requires posting of collateral under certain conditions. Although there is possibility that Rutgers would be required to pay under the terms of the swap agreements, we believe the risk is acceptable with the University's credit profile.

STRENGTHS:

* Large, stable enrollment base (approximately 42,000 full-time equivalent students) and position as the flagship and comprehensive research university in the State of New Jersey;

* Positive operations (2.7% three-year average operating margin) and growing revenue from gifts, grants and contracts, tuition and student fees to support debt service;

* Strengthened fundraising profile, with anticipated launch of new comprehensive capital campaign in the near-term, following successful completion of $615 million capital campaign;

* Commercial paper program liquidity support provided by Standby Purchase Agreement from Wachovia Bank, N.A. (rated Aa2/P-1).

CHALLENGES:

* Leveraged balance sheet position relative to comparably rated institutions, driven by limited direct state support for capital appropriations leading to high reliance on debt for capital funding;

* Continued pressures on state support, with reduced operating appropriations in FY2007, although the recommended budget for FY 2008 includes a proposed 1.5% funding increase.

* Significant capital plans during the next few years for the University's three campuses.

MARKET POSITION/COMPETITIVE PROFILE: EXCELLENT STUDENT DEMAND DRIVEN BY LIMITED HIGHER EDUCATION CAPACITY IN THE STATE AND RISING DEMOGRAPHICS

Moody's expects that Rutgers' position as the state's flagship higher educational institution and its only comprehensive public research university will continue to drive excellent student demand and anchor state and private support for its academic, research and public service programs for the foreseeable future. The majority of students are enrolled at the main New Brunswick/Piscataway campus in central New Jersey; however Rutgers has experienced growth at its Newark and Camden campuses. The University is implementing a large restructuring of its undergraduate programs to strategically position it for an enhanced undergraduate experience. Additionally Rutgers is investing in all three campuses, including student life facilities at Camden, the new business school in Newark, and a new Health Sciences Center and Proteomics and Structural Biology Building in New Brunswick

Rutgers is overwhelmingly the largest university in the state, enrolling about 42,600 full-time equivalent students, as well as one of the largest universities in the country. The rising demographics in the State of New Jersey, coupled with the limited capacity at the State's higher education institutions, positions Rutgers to maintain stable enrollment and a resulting reliable stream of tuition revenues. First year applications have risen in both Fall 2005 and Fall 2006 to reach nearly 30,700, and healthy student demand is reflected in selectivity of 60% and a 33% yield on admitted students. Unlike some of its peers, Rutgers does not enroll a substantial population of out-of-state students, with approximately 10% of Rutgers undergraduate students coming from outside the state.

OPERATING PERFORMANCE: HEALTHY ANNUAL OPERATIONS AND DIVERSE REVENUE BASE PROVIDES GOOD SUPPORT FOR DEBT SERVICE

Despite the constrained state funding, Rutgers has provided favorable operating performance and good debt service coverage. For FY 2006, the three year average operating margin was 2.7%, particularly notable that the positive performance includes the recognition of $91 million of non-cash depreciation expense in FY 2006. Average annual debt service coverage was 3.2 times, representing good coverage and bondholder security. Rutgers' revenue base is increasingly diversified, with state appropriations 33% share of total revenue down from 37% in 2001, and student charges rising to 38% in FY 2006 from 33% in FY 2001. The increasing diversity is driven by increased revenues from research grants and student charges, as well as the decline in state funding. We expect the University to display continued diversification in revenue sources.

For FY 2007, Rutgers incurred a $29 million reduction in core operating appropriations as the State coped with a large budget gap for the year. To bridge the loss in funding, the University instituted budget reduction measures, including staff reductions and hiring deferrals, programmatic cuts, and eliminating six intercollegiate athletic programs. Additionally, the University implemented 8% tuition increases for in-state undergraduate and 10% for non-resident undergraduate and all graduate students and saw increased state funding for research. The Governor's recommended budget has proposed a 1.5% increase to higher education operating appropriations for FY 2008. Despite the funding status, we believe Rutgers continues to possess sufficient budgetary flexibility to increase student tuition and fees, and to trim expenses if necessary.

Moody's rates the State of New Jersey Aa3 with a stable outlook, based on its large, diverse economy with wealth levels among the highest in the nation, improved financial profile with restrained spending plans. Offsetting these attributes is an expectation of continued budget imbalance in 2008, an economic recovery slightly weaker than the nation's by several measures, significant financial pressures from unfunded pension and health benefits, and a dramatically increased debt burden in recent years.

BALANCE SHEET POSITION: GROWING FINANCIAL RESOURCE BASE PROVIDE ACCEPTABLE SUPPORT OF HIGH BALANCE SHEET LEVERAGE

In Moody's opinion, the most significant financial challenge facing Rutgers will be managing its growing capital needs with limited state capital funding. As New Jersey public universities have historically had to borrow for almost all capital projects, Rutgers' proforma debt totals are high at approximately $795 million for FY 2006 (including the University's one-third share of state funded capital improvement debt and assuming $200 million issuance under the University's commercial paper program. Total financial resources as of FY 2006 showed acceptable coverage of direct debt at 1.24 times for FY 2006

Rutgers has significant capital plans, estimating over $400 million of new projects during the next three to five years. It intends to finance many of these projects largely through debt but will also fund with gifts and grants as available. Although raising the leverage of the University, we believe that the debt levels will remain manageable and will be offset by future resource growth.

Rutgers has shown good balance sheet growth, with total financial resources rising to $986 million in FY 2006 from $711 million in 2001, driven largely by gifts and investment returns. The University successfully completed its capital campaign, raising $615 million in gifts and pledges against an original goal of $500 million. As Rutgers only became a large university in the 1960s, its alumni are comparatively young compared to other flagship institutions and less able or interested in giving substantial gifts to the University. However, as the alumni base matures financially, we expect it further improve its private philanthropic support, especially at the major gifts level. We expect the University to launch a major fundraising campaign within the next few years, although the goal and timeline have yet to be finalized.

SHORT-TERM RATING RATIONALE: UNIVERSITY'S COMMERCIAL PAPER PROGRAM SUPPORTED BY STANDBY COMMERCIAL PAPER PURCHASE AGREEMENT FROM WACHOVIA BANK, N.A.

The P-1 rating is based on the Standby Commercial Paper Purchase Agreement (Liquidity Facility) provided by Wachovia Bank, N.A., (Aa2/P-1), and the limited likelihood of premature termination of the facility without payment of the commercial paper (the CP). Additionally, the rating incorporates Rutgers' credit strength as it is responsible for the full payment of interest. Events, which would cause the Liquidity Facility to terminate without payment of the CP, are directly related to the credit quality of Rutgers University (the University). The Liquidity Facility has been sufficiently sized to cover $200 million principal amount of CP. Rutgers University cannot issue commercial paper exceeding the amount covered by the Liquidity Facility. Draws made on the Liquidity Facility received by the Bank at or prior to 12:00 noon (Eastern Time) will be honored by 2:00 p.m. on the same business day. The commitment will be reinstated following the repayment by the University in the amount of such draw.

Rutgers may not terminate, substitute or assign the Liquidity Facility without prior written evidence from Moody's that the rating on the CP will not be reduced or withdrawn as a result of such actions.

The Liquidity Facility will terminate upon the earliest to occur of: (a) February 28, 2012; (b) the date of termination of the Liquidity Facility due to voluntary termination by the University; (c) the date on which the available commitment has been reduced to zero on any liquidity facility substitution date; (d) 15 or 60 days (depending on the default) following the IPA's receipt of notice from the Bank of an event of default under the Liquidity Facility; and (e) upon an immediate termination event or following a suspension event.

Wachovia Bank may automatically terminate or suspend payment under the Liquidity Facility upon any of the following events: (1) principal and interest on the CP is not paid by the University when due; (2) upon bankruptcy or insolvency events of the University; (3) the University challenges the validity or enforceability of certain relevant documents in its entirety or relating to payment of principal and interest; (4) a governmental authority declares in a final non-appealable judgment that certain material documents in its entirety or relating to payment of principal and interest are not valid and binding obligations or the University; and (5) the rating on the University's long-term general obligation debt is downgraded below investment grade by each rating agency then rating the Bonds.

Outlook

Moody's stable outlook anticipates stable enrollment, continued positive operating performance and good debt service coverage, and modest growth in financial resources until the launch of the expected fundraising campaign.

What Could Change the Rating - UP

Substantial growth in financial resources resulting in stronger cushion for debt.

What Could Change the Rating - DOWN

Weakening in student demand, especially if coupled with minimal or no growth in tuition revenues, or a significant increase in borrowing plans without offsetting revenue and resource growth.

KEY DATA AND RATIOS (FY 2006 financial data; Fall 2006 enrollment data):

Total Enrollment: 42,200 full-time equivalent students

Total Proforma Debt (assuming commercial paper at $200 million issuance limit): $795 million

Expendable Resources to Proforma Debt: 0.90 times

Expendable Resources to Operations: 0.49 times

Percent of Revenues from State Appropriations: 32.1%

Average Operating Margin: 2.7%

RATED DEBT:

General Obligation Bonds, Series 1992A, 1997A, rated Aa3.

General Obligation Bonds, Series 1998A, 2002B, 2003D, 2004E: rated Aa3, Aaa.

General Obligation Refunding Bonds, Series2003C, ratedAa3; Aaa.

Variable Rate Demand General Obligation Refunding Bonds, Series 2002A, rated Aa3/VMIG1 based on SBPA by Helaba Landesbank Hessen-Theuringen Girozentrale.

Certificates of Participation, Series 2004: rated Aa3, Aaa.

Lease Revenue Refunding Bonds Series 1998, rated Aa3, Aaa.

Revenue Refunding Bonds Civic Square Project, Series 2005: rated Aa3, Aaa.

Civic Square Project Revenue Bonds, Series 1994: rated Aaa.

Charter School Project Bonds, Series of 2003: rated Aa3.

Middlesex County Improvement Authority Revenue Bonds (George Street Student Housing Project) 2004 Series A, rated Baa1.

Middlesex County Improvement Authority Revenue Bonds (George Street Student Housing Project) 2004 Series B, rated Aa3.

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