

Open Forum on the Budget FY2018 – FY2020

May 9, 2017

Agenda

- Higher Education Environment
 - Federal Issues
 - State Environment
- Impact to Ramapo College
- Budget process
- Financial outlook

HIGHER EDUCATION ENVIRONMENT

Federal Issues

Trump Administration's Initial Proposed FY2018 Budget

- \$9-billion cut to U.S. Department of Education (**more than 13%**)
- Would “safeguard” Pell Grant program “by level funding”
 - Does not specify whether the White House will maintain the maximum yearly Pell Grant at \$5,920.
 - Would reduce the \$10.6 billion Pell (created by a change in the eligibility requirements for students) by reallocating \$3.9 billion to other parts of the government.
- Would cut nearly \$200 million from federal programs that help disadvantaged students enter and succeed in college.
 - TRIO umbrella of eight outreach programs that support the progress of low-income, first-generation, and disabled students, starting in middle school.
 - 32% reduction in GEAR UP program, which provides six to seven years of support for tutoring, mentoring, scholarships, and other services to low-income students and families.
- Would eliminate the Supplemental Educational Opportunity Grant, a federal grant for low-income students.
- Would “significantly” reduce Federal Work-Study and—according to the proposed budget—reform this “poorly-targeted allocation to ensure funds go to undergraduate students who would benefit most.”
- Does not mention of the National Science Foundation, apparently leaving the NSF appropriation for the more detailed budget plan expected later in the spring.

Update – “Congressional budget deal wards off Trump’s wish list of higher-education cuts”

Congressional budget deal addresses appropriations for the **next few months** but “signals that lawmakers are unlikely to rubber-stamp the president’s deep budget cuts for fiscal 2018”

- Pell Grant expanded – up to \$2,960 to recipients taking summer courses during the 2017-18 academic year
- Funding for TRIO has been increased by \$50 million
- Funding for GEAR UP has been increased by \$17 million

State Environment

New Jersey Higher Education Ratings - Moody's

Public 4-Year Universities

Rutgers University	Aa3 / Negative
Montclair State University	A1 / Negative
New Jersey Institute of Technology	A1 / Negative
College of New Jersey	A2 / Stable
Kean University	A2 / Stable
Ramapo College	A2 / Negative
Rowan University	A2 / Negative
William Paterson University	A2 / Negative
New Jersey City University	A3 / Negative
Stockton University	A3 / Negative

Private 4-Year Universities

Princeton University	Aaa / Stable
Princeton Theological Seminary	Aa1 / Stable
Seton Hall University	A3 / Stable
Rider University	Baa2 / Stable
Stevens Institute of Technology	Baa2 / Positive
Georgian Court University	Baa3 / Stable
Drew University	Ba3 / Negative

Community College (with revenue-backed debt)

Passaic County Community College	A2 / Stable
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CREDIT OPINION

27 March 2017

Update

Rate this Research



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State of New Jersey

Rating Update - Moody's downgrades New Jersey's GO rating to A3; outlook stable

Summary Rating Rationale

Moody's Investors Service has downgraded to A3 from A2 New Jersey's general obligation rating. The ratings on the state's appropriation-backed debt, other GO related debt, moral obligation debt, intercept programs and certain special tax bonds that require state appropriation have also been downgraded by one notch. The downgrade affects approximately \$37 billion of rated debt. The outlook on the state's ratings has also been revised to stable.

The downgrade to A3 reflects the continued negative impact of significant pension underfunding, including growth in the state's large long-term liabilities, a persistent structural imbalance, and weak fund balances. Despite the state's significant increases in pension contributions since fiscal 2012, contributions remain well below the actuarial recommended contribution and unfunded pension debt continues to grow. The downgrade also reflects the expectation that the statutory pension contribution schedule will be increasingly difficult to meet given the lack of structural budget adjustments to incorporate General Fund tax reductions that took effect in January 2017 (Chapter 57) and the state's reliance on optimistic revenue growth assumptions to balance the budget. Without balancing actions, the recent tax cuts will reduce revenues by \$1.1 billion by fiscal 2021 and strain the state's ability to resolve its large structural imbalance in the near term.

NJ Credit Rating Downgraded

- Moody's Investors Service dropped the State's credit rating from A2 negative to A3 stable, citing an underfunded pension system and other budget issues.
- "The downgrade to A3 reflects the continued negative impact of significant pension underfunding, including growth in the State's large long-term liabilities, a persistent structural imbalance, and weak fund balances," Moody's said.
- The State's significant increases in pension contributions since 2012 are still below recommended payments and unfunded pension debt continues to grow, Moody's said.
- Ramapo's credit rating was not changed, and remains at A2 negative.

Annual Funded Ratios in FY 2015

NJ: Lowest Funded Ratio FY2015 & Lowest % Paid

State	Total pension liability (\$M)	Net pension liability (\$M)	Funded ratio 2014	Funded ratio 2015	Net amortization benchmark (\$M)	Percentage paid
New Jersey	\$217,055	\$135,701	42%	37%	\$8,519	32%
U.S. total	\$3,850,168	\$1,091,828	75%	72%	\$102,949	92%

New Jersey's Pension System, According to Pew Charitable Trusts' Study:
The State Pension Funding Gap: 2015

- Gap between the total assets reported by New Jersey's state pension system and the benefits promised to workers, now reported as the net pension liability, reached \$135.701 billion in fiscal year 2015.
- New Jersey will not even be 80% funded for another 30 years, based on its current funding strategy.

Capital Funding: Overview

Capital expenses usually funded by one of the following:

- Campus-backed debt
- General obligation bonds
- Bond programs administered by the New Jersey Educational Facilities Authority
- Direct State capital appropriations
- Private fundraising and philanthropy

Capital Funding: Most Recent General Obligation Bonds

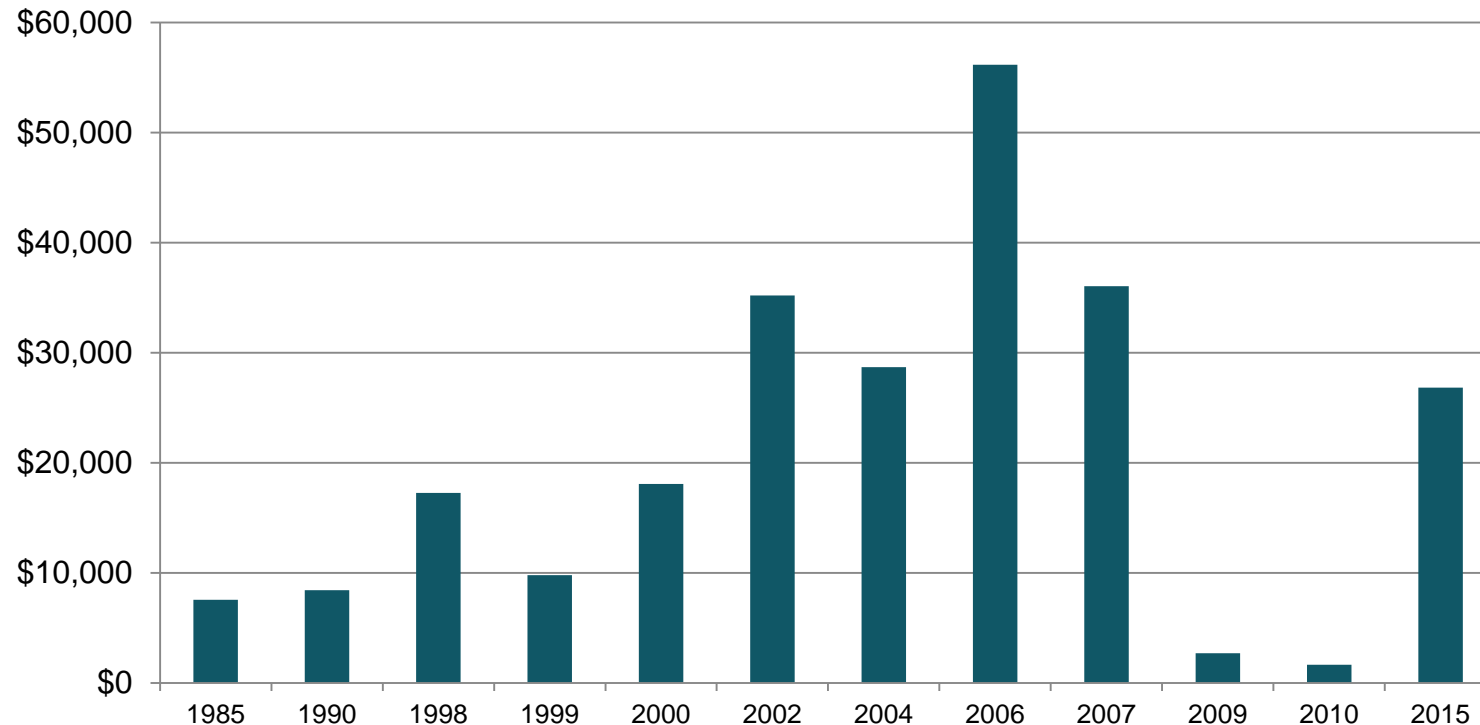
- Jobs, Education and Competitiveness Bond Act of 1988
 - \$350 million for all four sectors of higher education

25 years later...

- Building Our Future Bond Act of 2012
 - \$750 million for all four sectors of higher education

Facilities Growth at Ramapo 1985-2015

\$ in thousands

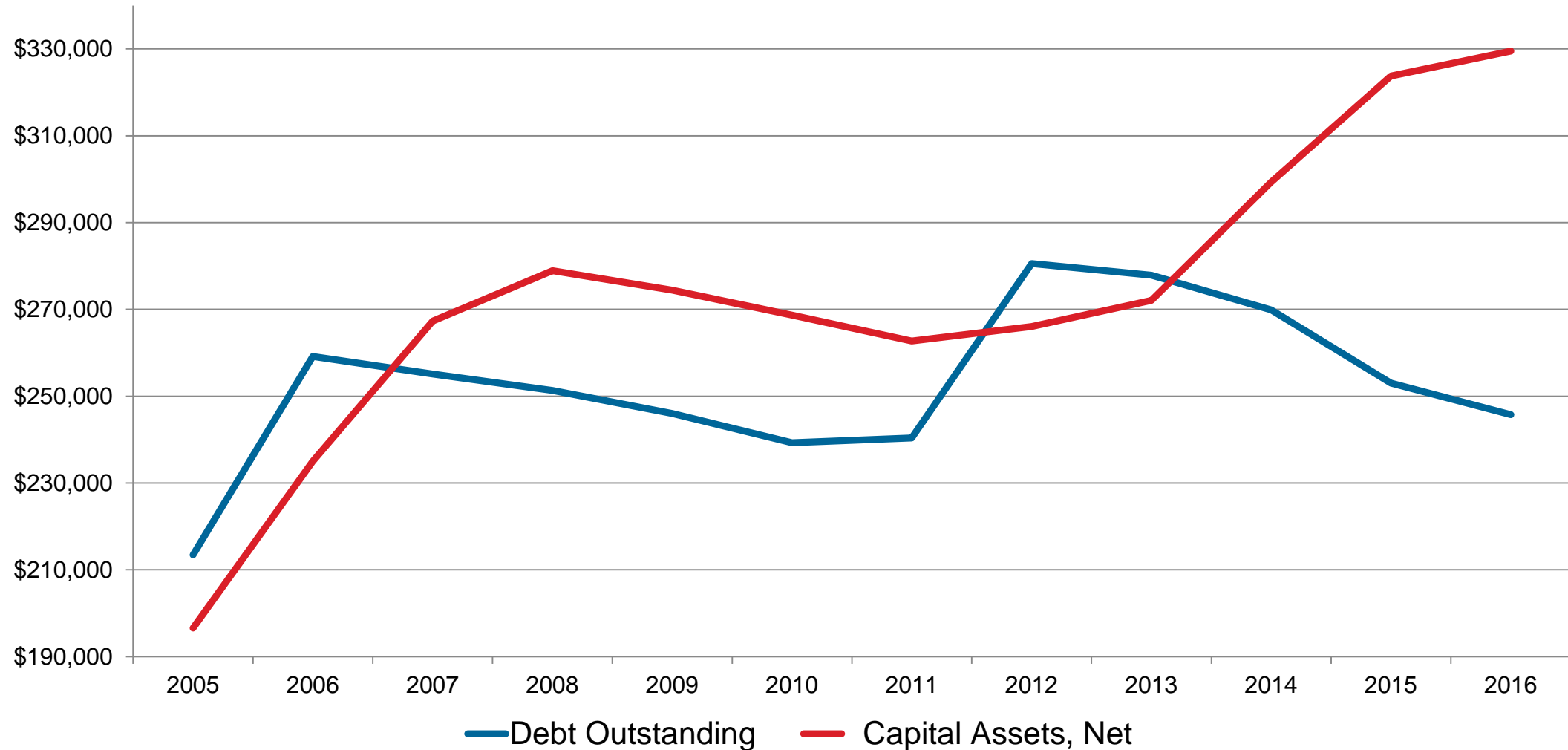


- Dollars represent **new** buildings built and placed in service from 1985-2015, and shows a period of expansion, while no capital support from the State.
- Total new growth was approximately \$250 million, and not shown on the chart is an additional \$105 million in renovations during that time.

	Year Built
Residences - Pine Hall	1985
Residences - Linden Hall	1990
Berrie Center	1998
Facilities Management Office	1998
Residences -Bischoff Hall	1999
Residences - Mackin Hall	2000
Trustees Pavilion	2000
Residences - The Village	2002
Residences - The Overlook	2004
Residences - Laurel Hall	2006
Parking Garage	2006
Anisfield School of Business	2007
Sharp Sustainability Education Center	2009
Greenhouse	2009
Salameno Spiritual Center	2010
Adler Center for Nursing	2015

Impact of Capital Growth on Ramapo

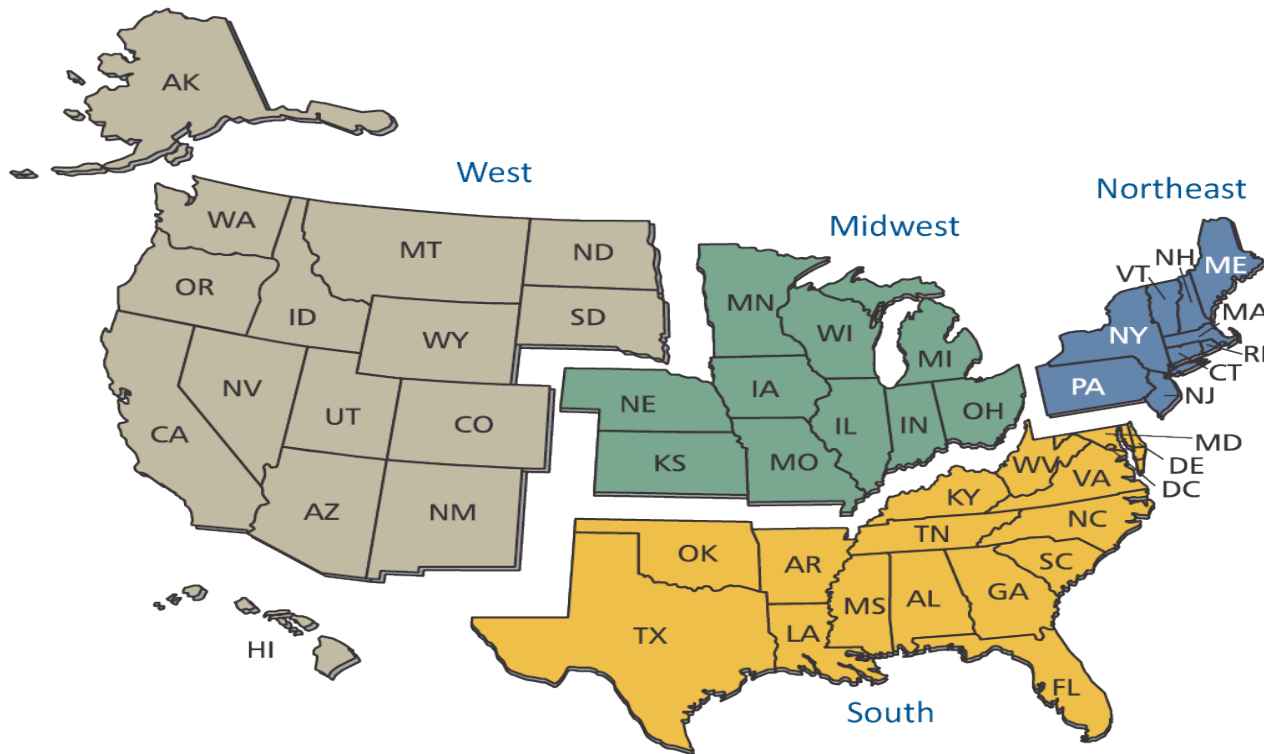
\$ in thousands



Student Demographics - HS Graduation Rates

- The overall number of high school graduates will plateau for most of the next decade.
- After steady increases in the overall number of high school graduates for the last 15 years, the US is headed into period of stagnation.

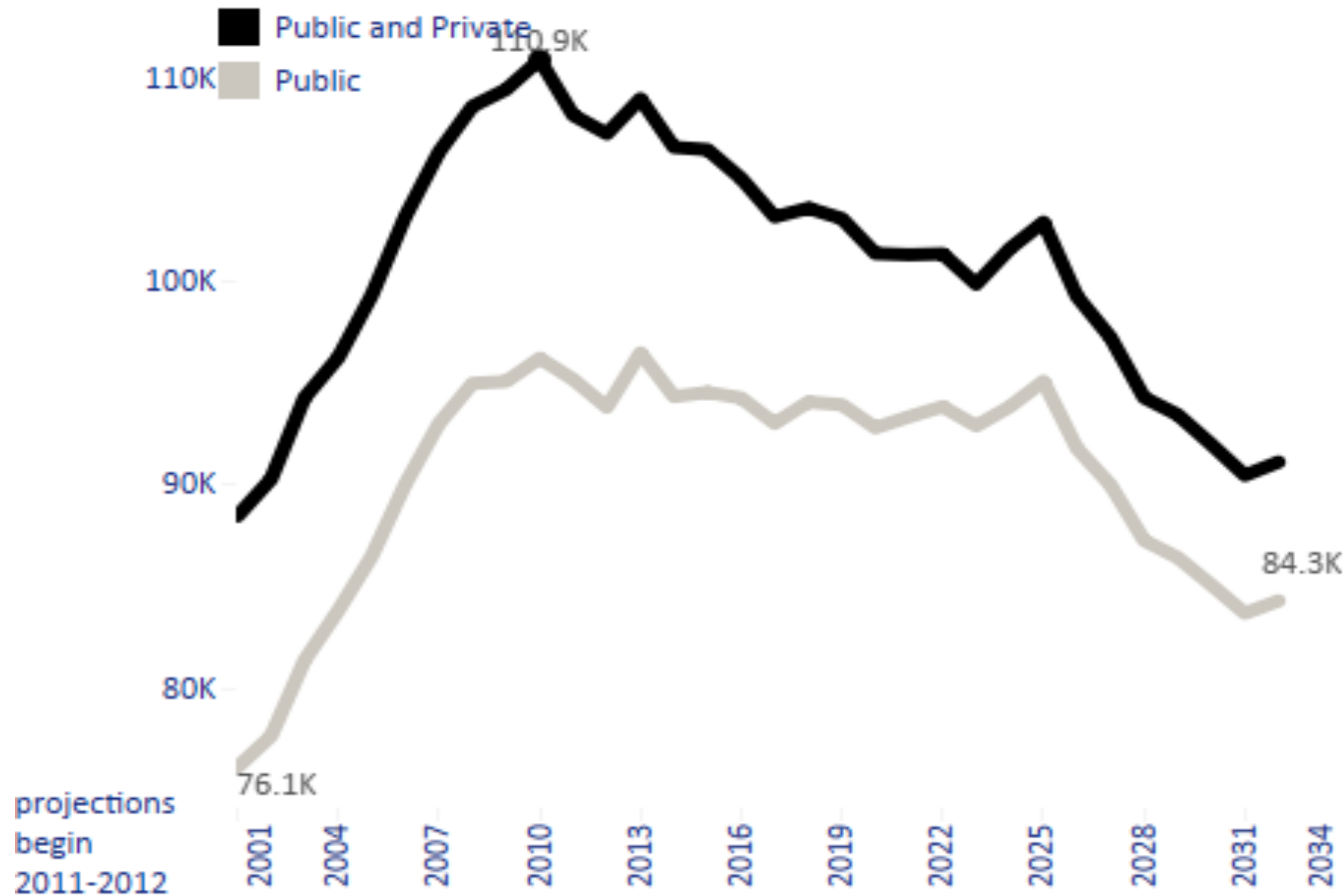
Regional Divisions of the United States - Northeast



- In 2013, the Northeast produced approx. 639,000 graduates, which represented 18% of the national total.
- By 2030, the number of high school graduates is projected to decrease to about 567,000 graduates. This means the Northeast will produce only 16% of the national total.

New Jersey High School Graduate Trends

Overall High School Graduate Trends



9th highest producer of high school graduates with 100,500 high school graduates, on average, projected per year between school years 2011-12 and 2031-32.

New Jersey generates about 16.5% of the Northeast's total, on average

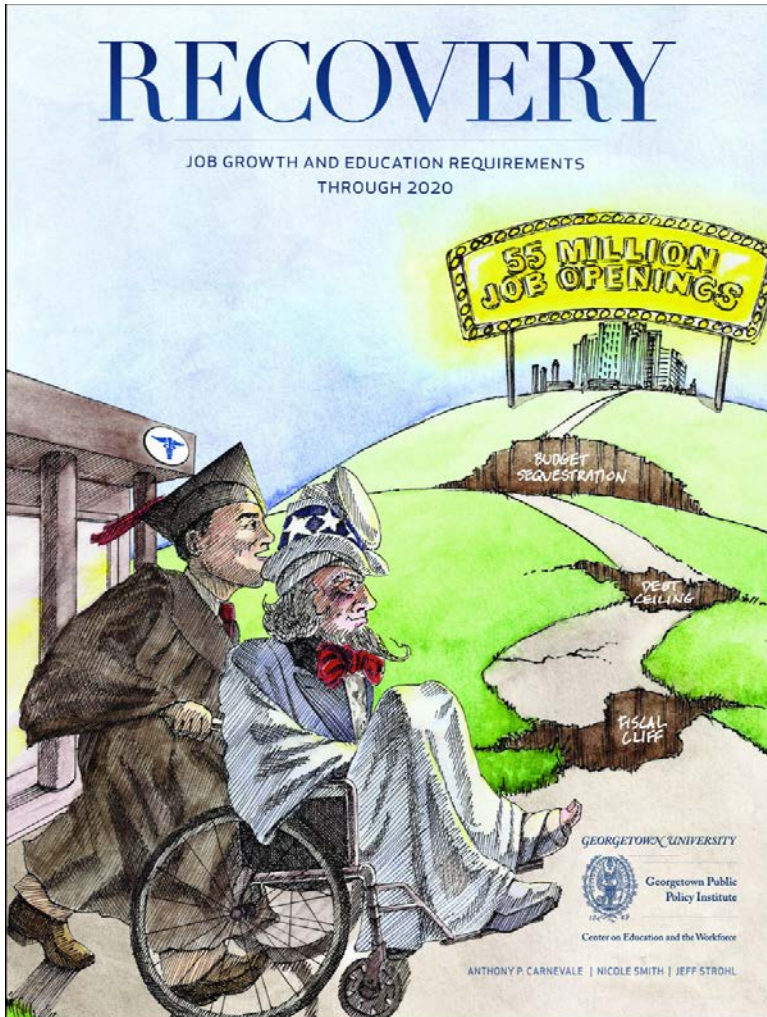
The total number of graduates in New Jersey is not projected to increase after 2011-12, ending at 91,100 in 2031-32.

Migration of all first-time degree/certificate-seeking undergraduates in degree-granting postsecondary Institutions - Fall 2014

Migration of Students			
State	Out of State	Into State	Net
New Jersey	34,813	5,712	-29,101

- New Jersey is the National Leader in Net Out of State Migration

Workforce Development in NJ



- 68% of New Jersey's jobs will require a postsecondary education by the year 2020, up from 62% in 2010.
- 29% of New Jersey's jobs will require a *bachelor's degree* in 2020, tied with CO and MA for the highest percentage among the states.

Why do students pursue a higher education?

The William J. Hughes Center for Public Policy at Stockton University in New Jersey released findings, “Measuring College Outcomes,” revealing that some college graduates believe colleges should make a greater effort to **combine academic and practical learning**.

- 73% said they felt college **was worth the cost**
- 30% cited “the most important college outcome is **to get a better job**”
- 78% of recent graduates “identified ‘internships or practical experience in college’ as the **most important factor to ensure success** in a current or future job and career.”

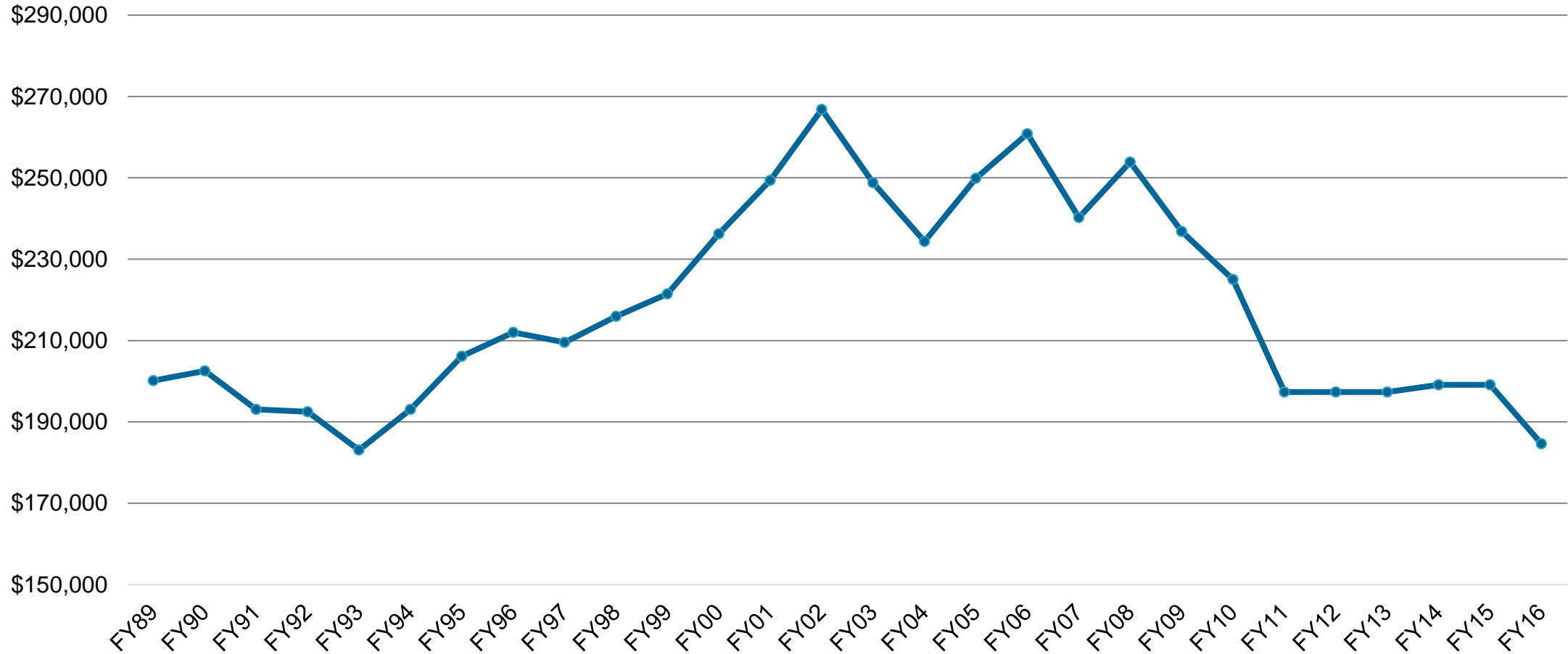
IMPACT TO RAMAPO COLLEGE

Revenue from key sources continuing to decline

- State appropriations for public institutions have been steadily declining, and are not set for FY18
 - NJ State Budget Hearings – taking place this week
- Pressure from enrollment levels
- Affordability of tuition

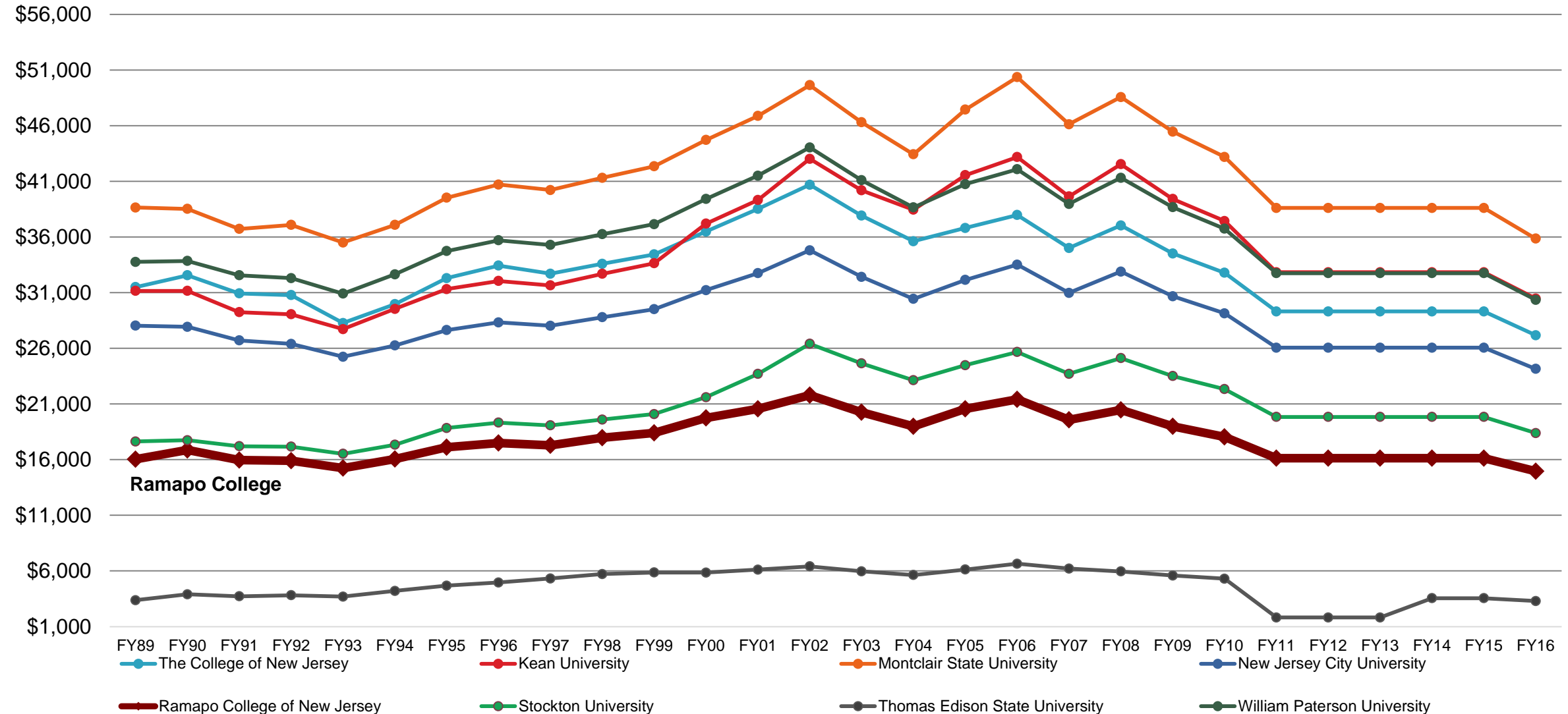
NJ State Appropriations to State Colleges & Universities - FY89 – FY16

\$ in thousands



NJ State Appropriations to each State College & University FY89-FY16

\$ in thousands



Total State Appropriations to the NJ State Colleges & Universities FY06 - FY16

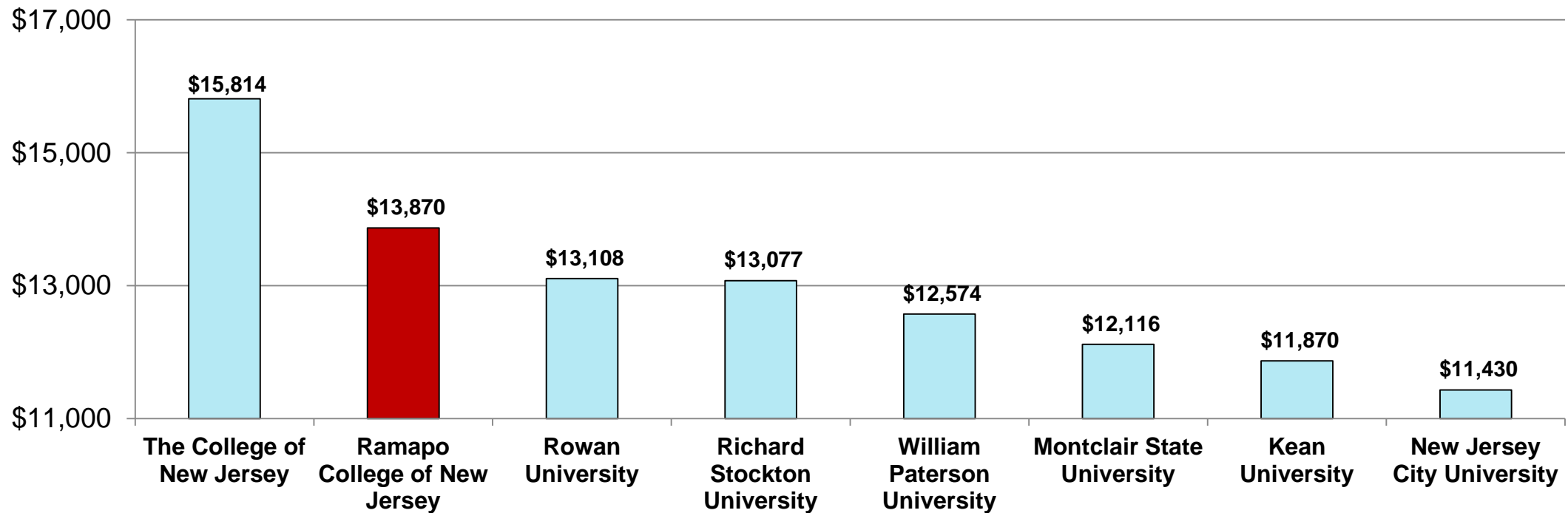
(same in FY2017 and expected in FY2018)

\$ in thousands					
<u>Institution</u>		<u>FY2006</u>	<u>FY2016</u>	<u>\$ Cut</u>	<u>% Cut</u>
TCNJ		\$37,977	\$27,177	\$10,800	28.4%
Kean University		43,180	30,469	12,711	29.4%
Montclair State		50,355	35,859	14,496	28.8%
NJCU		33,517	24,154	9,363	27.9%
Ramapo		21,417	14,953	6,464	30.2%
Richard Stockton		25,665	18,391	7,274	28.3%
Thomas Edison		6,651	3,292	3,359	50.5%
William Paterson		<u>42,085</u>	<u>30,357</u>	<u>11,728</u>	<u>27.9%</u>
TOTAL		\$260,847	\$184,652	\$76,195	29.2%

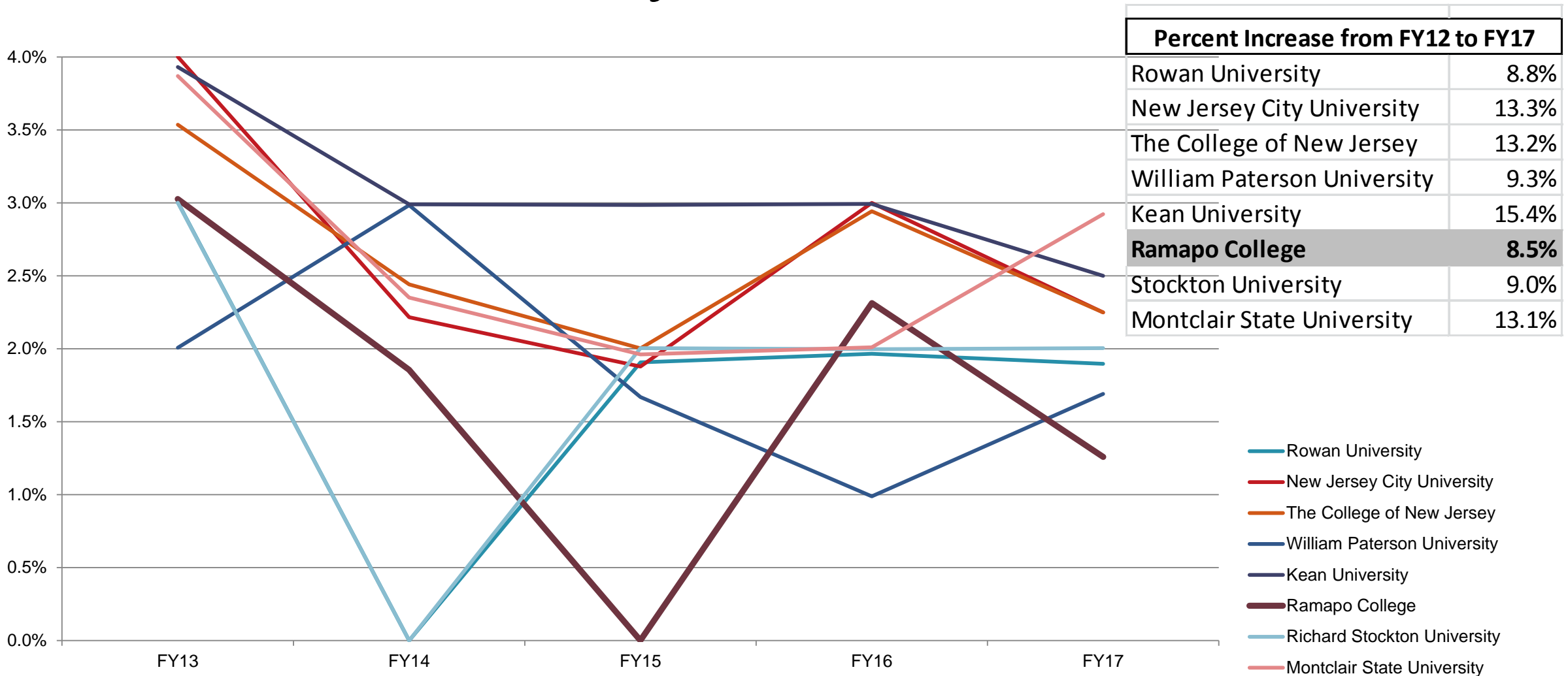
New Jersey State Support

Institution	FY17 Adj. State Appropriation	FY17 Bud Est FTE Undergrad (tot weighted)	State Funding Per Undergrad FTE
Rowan University	\$85,383,000	11,708	\$7,293
New Jersey City University	24,154,000	4,735	5,101
The College of New Jersey	27,177,000	6,610	4,111
William Paterson University	30,357,000	7,589	4,000
Kean University	30,469,000	9,327	3,267
Ramapo College	14,953,000	4,978	3,004
Stockton University	18,391,000	7,437	2,473
Montclair State University	35,859,000	14,687	2,442
Sector Average	\$33,492,875	8,384	\$3,977

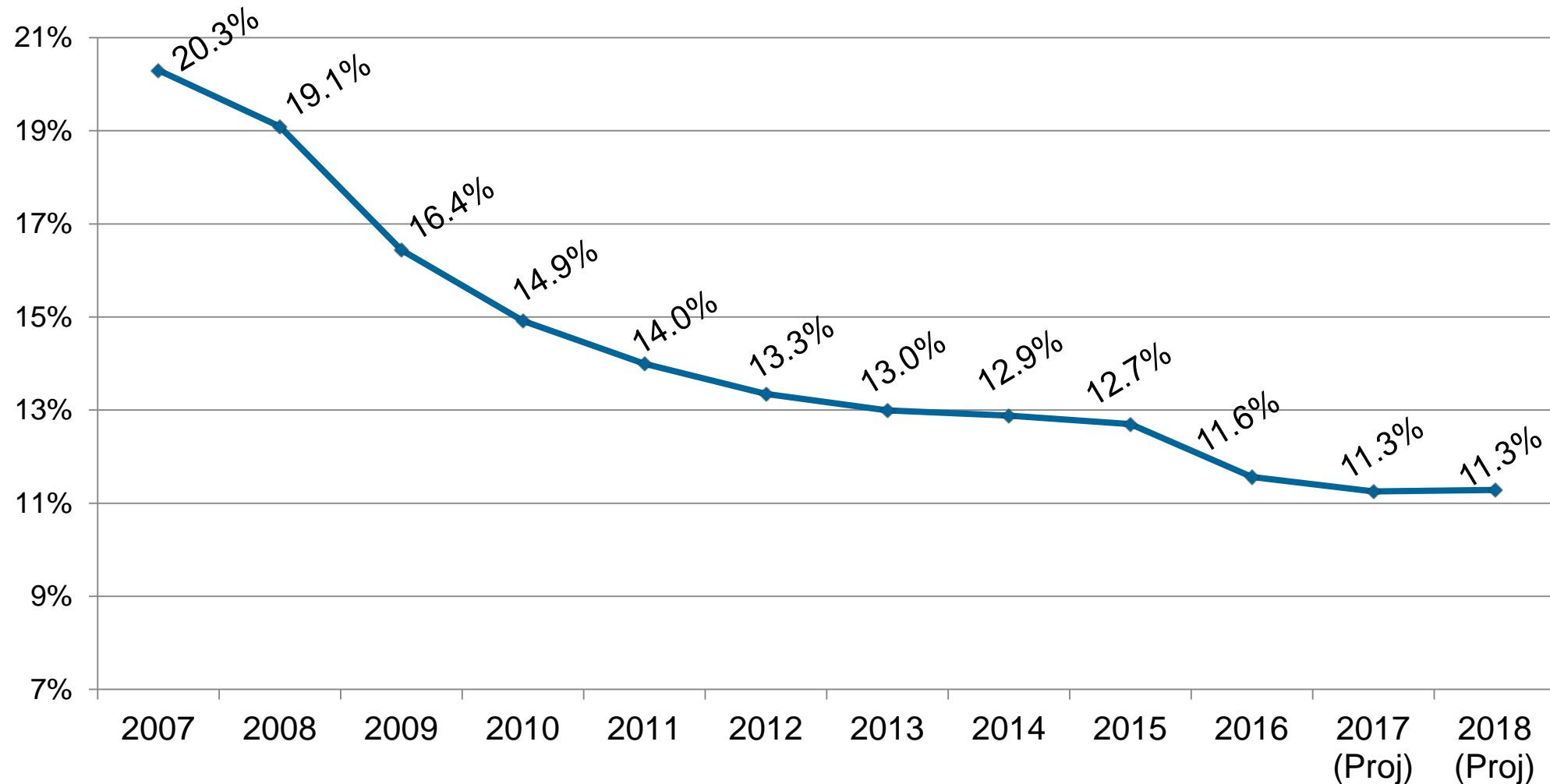
FY17 Tuition & Fee Comparison of New Jersey Public Institutions



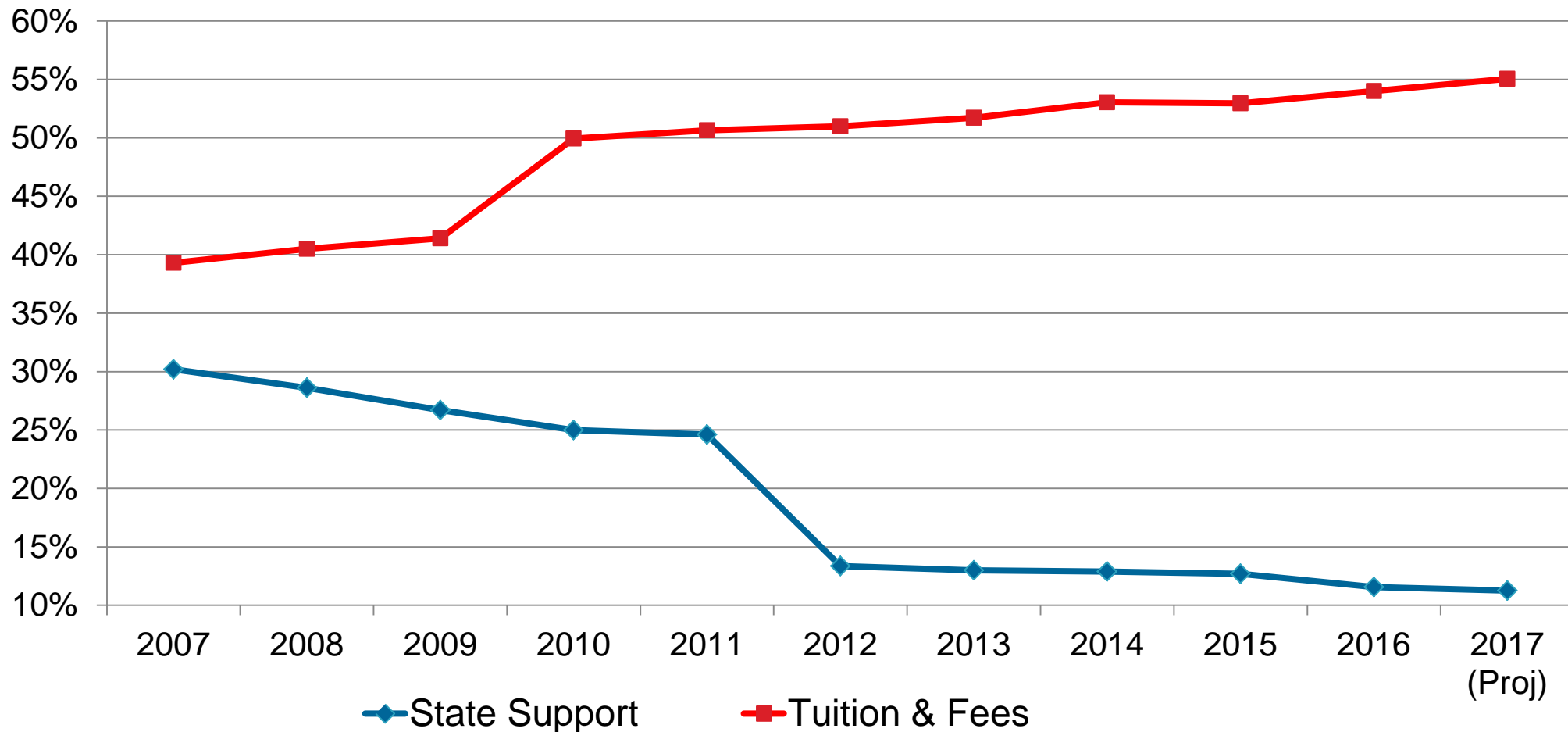
Annual Tuition & Fee Percent Increase - New Jersey Public Institutions



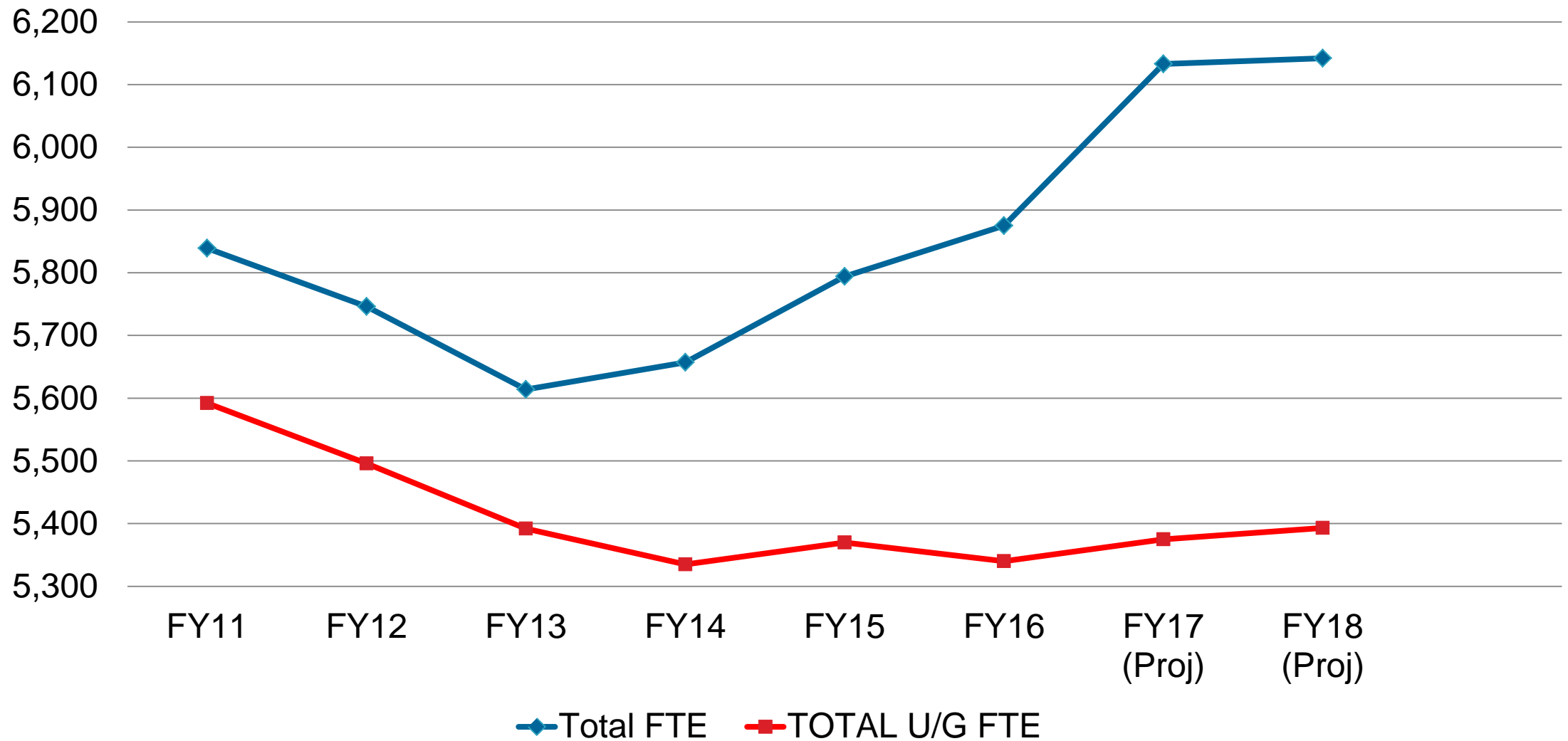
State Appropriations as a Percent of Revenues



State Appropriations vs. Tuition & Fees as a Percent of Operating Revenues



Total Enrollment FTE



Student Indebtedness

- Average Ramapo Freshmen in 2016 – 64% take out loans averaging \$9,186
- Average debt of Ramapo graduates
 - Graduating Class of 2016 – \$29,150
 - Graduating Class of 2017 – \$33,808 (estimated)
- State of New Jersey average
 - 2015 – \$30,104
 - 2016 – \$30,536 (estimated)
- National Average in 2016 - \$37,172
 - 70% of all graduates had student loan debt
 - 6% increase over 2015

BUDGET PROCESS

Principles of Budget Development

- Using resources focused on the Mission of the College – commitment to academic excellence
- The planned use of resources will not exceed estimated resources available
- The College is committed to maintaining resources in order to sustain overall financial health
- Focus is a **Balanced Budget**

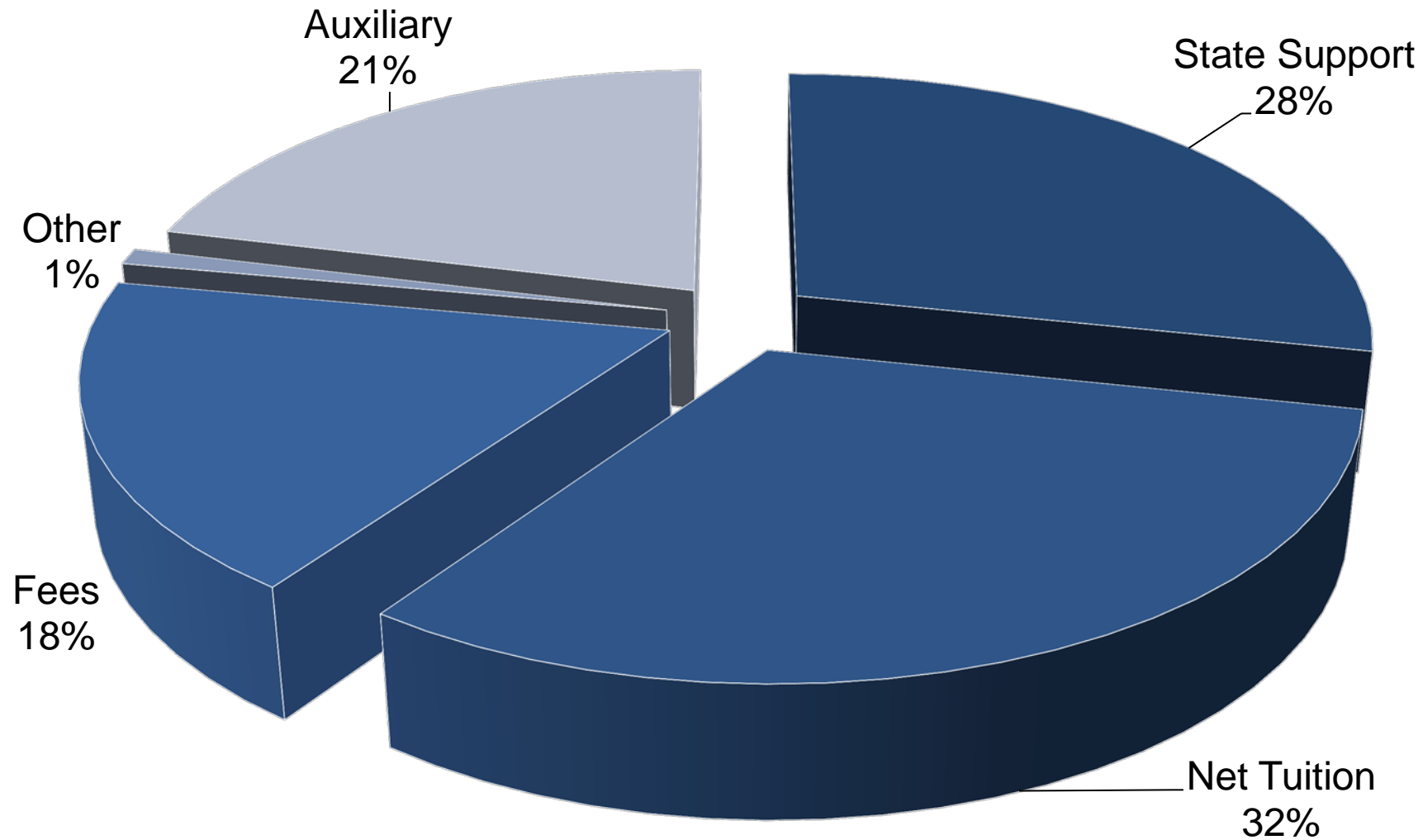
Budget Process

- Focus on what is needed in each unit
- There is currently a model whereby expenses are rising at a higher percentage than revenues
- No more “inflationary” requests, there is not a model of regular increases
- All new items will be requested with a funding source in mind
- Budgeting is a College-wide process, the Budget Office is here for support and guidance, but each unit owns their budget

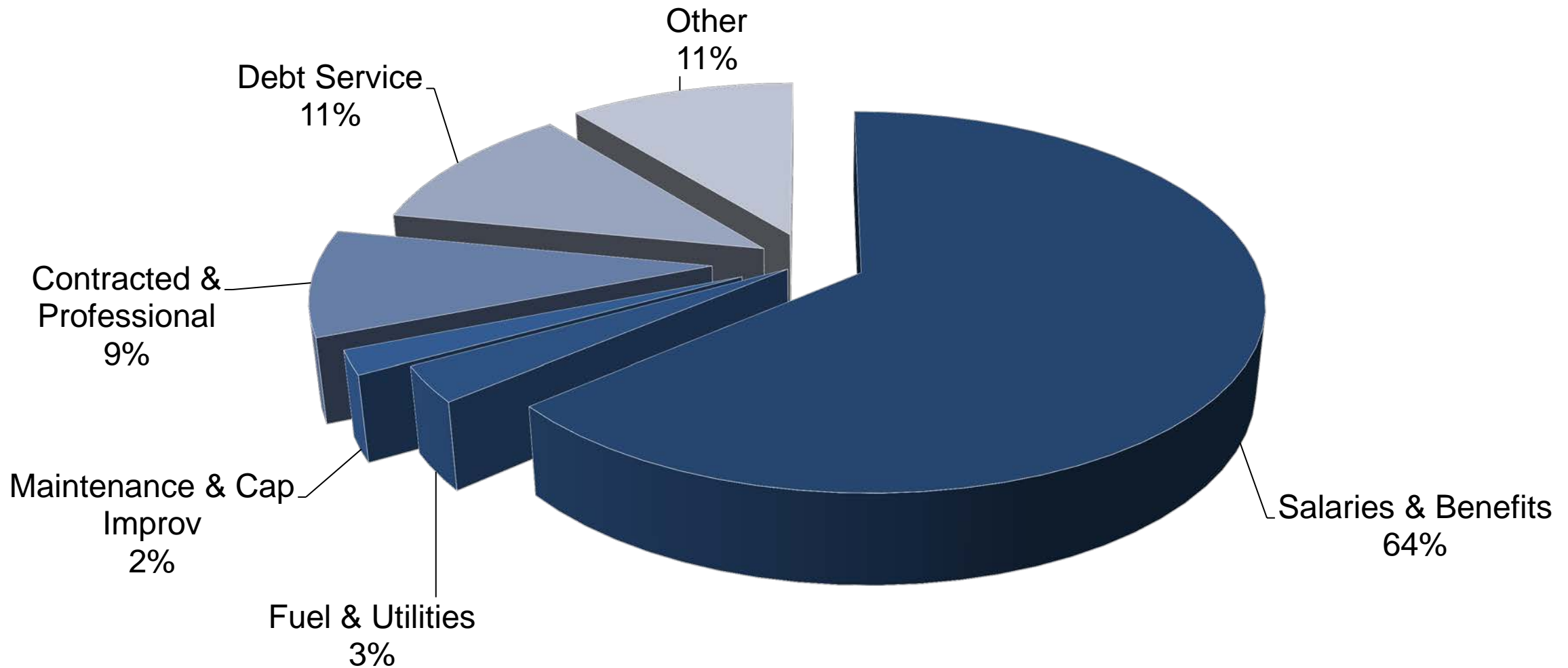
Where Do Operating Funds Come From?

- Tuition and fees
- State support
 - Operational Support - Appropriations
 - Employee benefits – “authorized positions” Student tuition & fees (net)
- Auxiliary services
- Other
 - Grants, both State and Federal
 - Fundraising revenues and Foundation support

Sources of Revenues 2018 (Proj)



Expenditures by Category 2018 (Proj)



FINANCIAL OUTLOOK

What is a Structural Deficit?

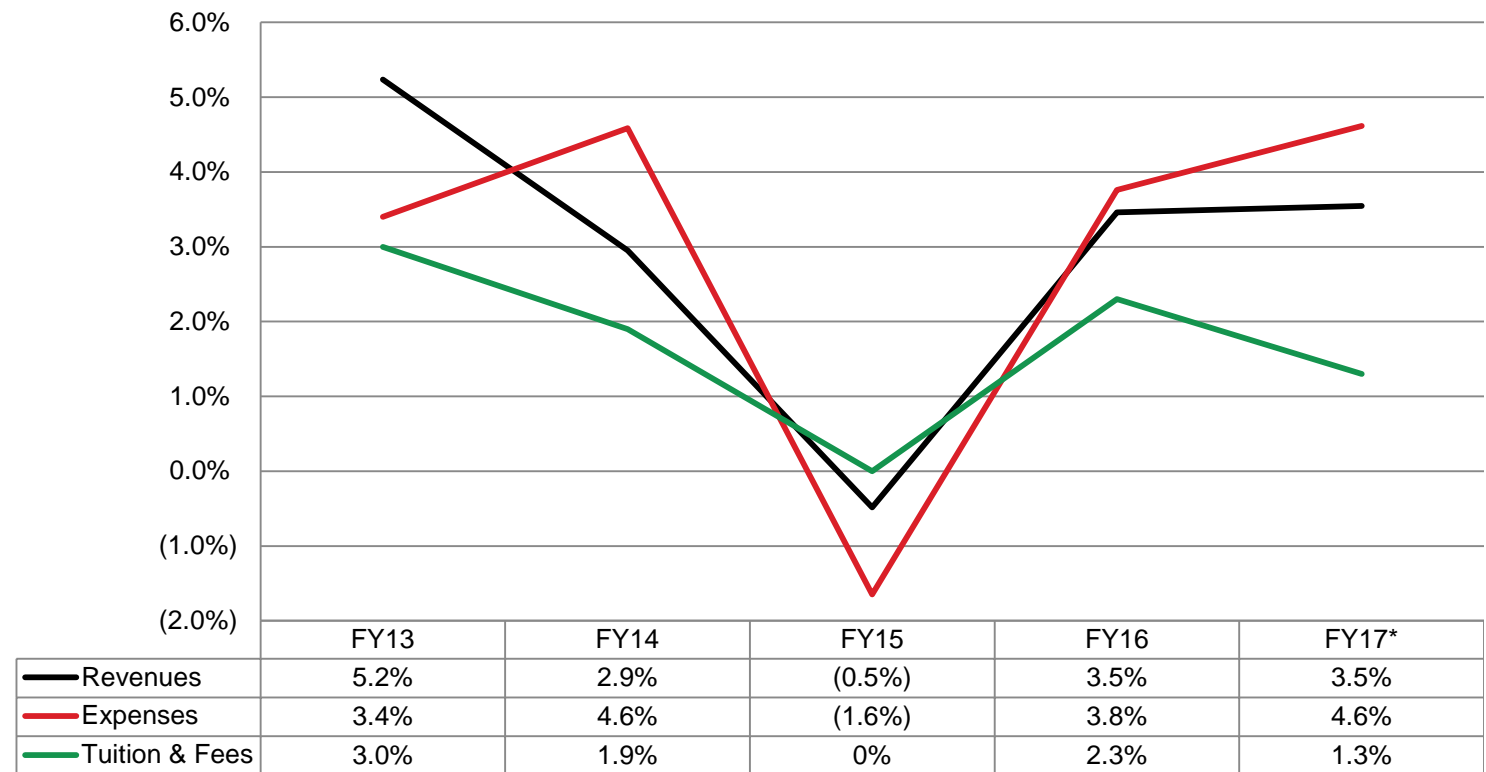
- Defined by the Cambridge Dictionary as

“The amount by which a government’s spending is more than it receives in taxes in a particular period, whether the economy is performing well or not.”
- Sometime described as “robbing Peter to pay Paul” or a “funding gap”
- When long-term spending exceeds the projected long-term revenues that will be generated by operations
- A model of systemic need for funds that are not generated by operations

Operating Results – Five Year Trend

- Over the last five years revenue has grown 15.5%, expenses have grown 15.4% and tuition and fees have increased 8.5%.
- The College has committed to keeping spend in line to not exceed revenue.

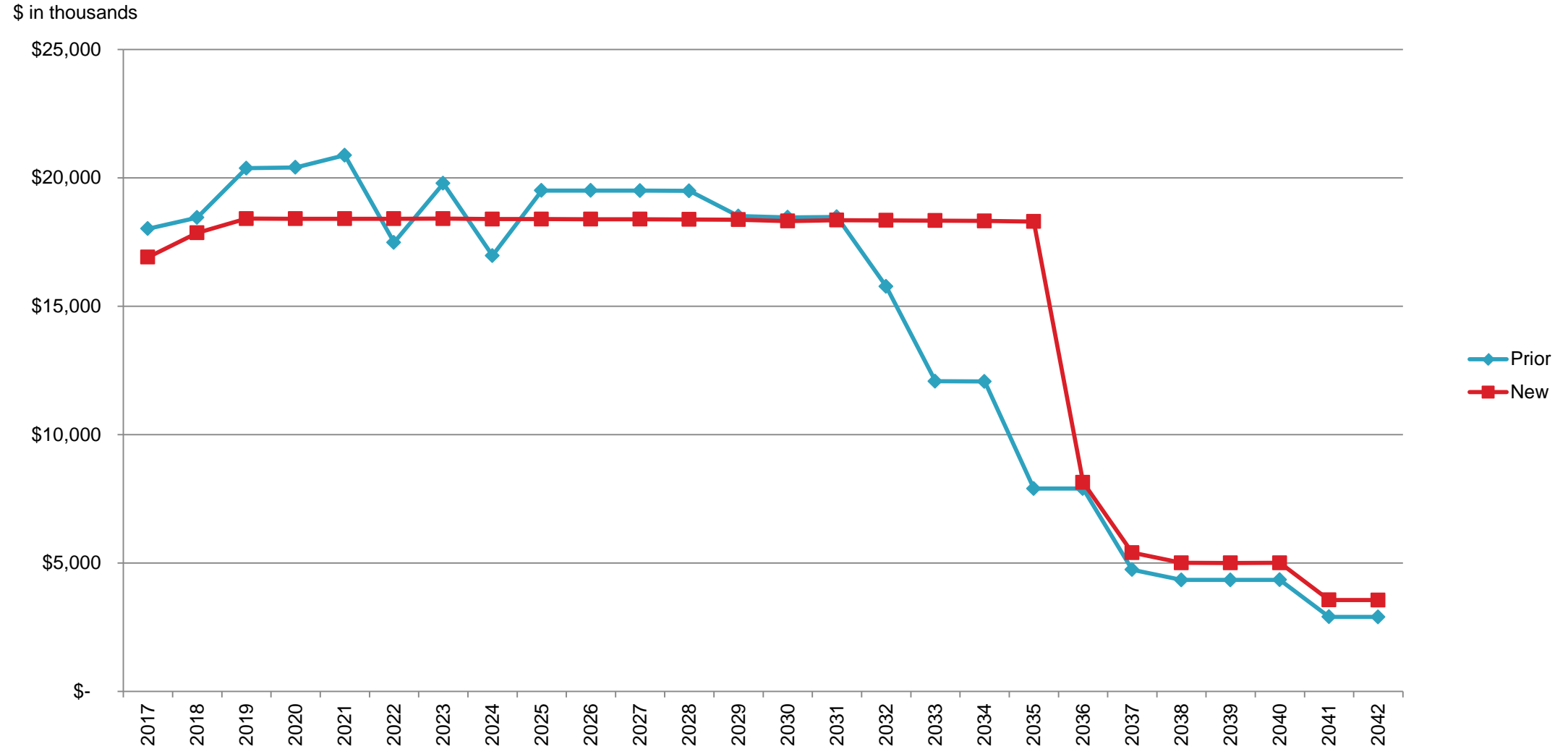
Changes in Operating Results per year



How has the College addressed these issues?

- The College commits to a balanced budget each year which means:
 - Delays of deferred maintenance projects
 - Delay pursuit of new programs or activities
- Debt restructuring, which will generate \$4 million in future cash flow savings from lower interest rates, and smoothing of future debt service payments
- Move towards an increases in graduate programs, to lever the existing undergraduate strengths
- Look for other funding sources and support

Changes in annual Debt Service resulting from Debt Refinance and Issuance FY17



Current Baseline Budget FY18

Current Key Assumptions:

- Base State appropriation flat
- 2% cut in general non-salary expenditures
- Full-time fringe rate at 51.95%
- Relatively flat undergraduate enrollments
- Two new graduate programs offered
- Housing occupancies at 92% in fall and 81% in spring

Ramapo College - Baseline Scenario

\$ in thousands	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>
E & G Revenues	\$122,301	\$122,978	\$123,996
Auxiliary Services	41,534	41,510	41,143
Total Revenue	163,834	164,488	165,139
E & G Expenditures	132,170	135,428	135,943
Auxiliary Expenditures	34,180	34,392	35,063
Total Expenditures	166,350	169,819	171,006
Deficit	(\$2,516)	(\$5,331)	(\$5,867)

Balancing Measures to Consider

- Reserves could be released to decrease deficit in FY18
- Review of SPIF program and budget change requests
- Increases to tuition, fees and housing – will review rates in connection with the current rate of inflation (1.26% in 2016) and the Higher Education Price Index (2.1% in 2015)
- Assessment of staffing levels
- Review of other spend, including deferred maintenance
- Revision to Investment Policy

Other uncertain items that could impact FY18 results

- Further reduction in State appropriations
- Further decline in State benefit support or significant changes in the fringe rate
- Decline in student enrollments and housing estimates
- Contract settlement
- Possible weather related event

Future Considerations

➤ Affordability

- Continue to balance budget
- Work to maintain affordability for students

➤ Enrollment

- Maintain strong enrollment management efforts
- Continue efforts to maintain strong retention

➤ Capital

- Continue to address deferred maintenance
- Review expansion and utilize any funding opportunities

College Goal: Financial Sustainability

