

RATING ACTION COMMENTARY

# Fitch Affirms William Paterson University, NJ Revs at 'BBB+'; Outlook Stable

Mon 06 Feb, 2023 - 4:18 PM ET

Fitch Ratings - New York - 06 Feb 2023: Fitch Ratings has affirmed William Paterson University's (WPU) 'BBB+' Issuer Default Rating (IDR) and the 'BBB+' ratings on approximately \$165 million of outstanding New Jersey Educational Facilities Authority (NJEFA) revenue bonds issued on WPU's behalf.

The Rating Outlook is Stable.

## RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

PRIOR ⚡

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William Paterson  
University of New  
Jersey (NJ) /General  
Revenues/1 LT

LT    BBB+ Rating Outlook Stable  
  
Affirmed

BBB+ Rating  
Outlook  
Stable

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## SECURITY

WPU's NJEFA bonds are unsecured general obligations of WPU payable from all legally available funds.

## ANALYTICAL CONCLUSION

WPU's 'BBB+' rating is based upon its position as an independent regional public university with roughly 9,000 undergraduate and graduate students. WPU is one of The State of New Jersey's (NJ: IDR A/Positive) 11 public universities, and benefits from solid state support. The rating also reflects WPU's ability to grow student enrollment from populations apart from the shrinking pool of traditional undergraduate students in the state, and capability to execute cost reduction efforts to preserve cash flow margins in response to revenue pressures. WPU's very high leverage, which Fitch calculates by including WPU's sizable pension obligations as debt equivalents, also factors into the rating. The effective burden of WPU's Fitch-calculated adjusted debt, however, is lessened by NJ's voluntary but consistent appropriations earmarked for WPU's share of pension expenses.

The Stable Outlook considers the impacts of a Fitch-modeled, forward-looking stress scenario on WPU's operational and leverage metrics. The stress scenario indicates WPU has the ability to withstand modeled assumptions and maintain sufficient AF-to-adjusted debt ratios consistent with Fitch's 'BBB+' rating over time.

## KEY RATING DRIVERS

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commuters, and almost exclusively hail from in-state, limiting WPU's geographic reach to one of the country's most challenged demographic areas for attracting undergraduates. While WPU maintains independent rate-setting authority from the state, in practice, price hikes are constrained by a price-sensitive undergraduate population, over half of whom qualify for federal Pell grants for low-income students.

Demonstrating these challenges, WPU's undergraduate FTEs, now 5,400 in number, dropped a sizeable 27% over the five years to fall 2022, with a 9% decline in the most recent year alone, when the acceptance rate was a weak 92% and matriculation was similarly weak at 12.5%. Only 800 freshmen matriculated in fall 2022, the smallest entering freshmen class in recent history, which will have lingering effects on enrollment and revenues as larger cohorts graduate and this smaller class cycles through. Retention remains a key concern, with a recent historic low 70% freshmen-to-sophomore retention rate, and the potential for increasing attrition among students who will no longer receive pandemic aid grants starting in the 2022-23 academic year.

Nevertheless, there are some signals of undergraduate stabilization, with completed applications and deposits for fall 2023 up significantly from the same time last year. In addition, transfer matriculants have increased two years in a row, and now equal freshmen matriculants. Management reports reliable transfer pipelines from its two main community college feeders, the Passaic County and Bergen County community colleges. Transfer volumes also were bolstered through a charitable grant from the Aspen Foundation aimed to eliminate community college graduates' barriers from continuing at four-year institutions.

Management's proactive strategies toward diversifying their student base, which started prior to the pandemic, are bearing fruit. Graduate enrollment was historically less than 10% of FTEs and currently represents a sizable 21% of FTE enrollment at 1,400 FTEs. Further growth in this segment is expected with the launch of new programs. WPU is also seeking to enlarge capacity in its high-demand nursing program, currently the among the largest at NJ's public state universities. International students through

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recurring revenues. WPU derives its remaining revenues mostly from state appropriations, representing about 30% of revenues, and the 20% balance mostly from grants and contracts.

### **Operating Risk: 'bbb'**

#### Thin Cash Flow Margins Challenged by End of Pandemic Aid; Moderate Capital Plans

Fitch's operating risk assessment of 'bbb' reflects WPU's thin Fitch-calculated cash flow margins, averaging less than 6% in recent years. Pandemic aid supplemented cash flow margins, and with these funds now fully used, WPU will be challenged to maintain solid future cash flow margins without swift and decisive expense management. Favorably, WPU has a recent history of making difficult but necessary expense modifications, including layoffs, and has the flexibility to make additional cuts if needed. In fact, management is continuing its execution of a plan to lower recurring expenses in phases through from FY 2022-2025, targeting approximately \$25 million in total.

A significant factor informing Fitch's assessment of WPU's operating risk is the consistency of state appropriations for operating needs. In addition to routine appropriations, NJ supplies its state universities with outcome-based grants and has awarded WPU with additional "Workforce Sustainability" grants in recent years.

Currently, internally-funded capital plans are limited to routine maintenance. With a high average age of plant above 15 years, WPU will need to secure external support for any major capital plans to preserve operating performance and cash flow margins, or risk pressuring Fitch's 'bbb' operating risk assessment.

### **Financial Profile: 'bbb'**

#### High Leverage including Pension; State Pension Appropriations Critical

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The resulting 27% AF-to-adjusted debt ratio, which underpins Fitch's financial profile assessment, is low for the 'bbb' assessment, but considers both the historical and expected NJ-state support for pension liabilities that make up about half of WPU's Fitch-calculated adjusted debt. This support lessens the effective burden of WPU's adjusted debt, and supports the rating at the higher end of the 'BBB' category.

WPU's lack of plans to issue self-supported additional debt at this time is also a key factor in Fitch's assessment of WPU's financial profile. Fitch views WPU as having almost no additional debt capacity at the current rating absent a corresponding growth in resources.

WPU's financial profile also considers the impacts of a Fitch-modeled, forward-looking stress scenario on WPU's operational and leverage metrics. The stress scenario indicates WPU's ability to withstand the modeled assumptions and maintain sufficient AF-to-adjusted debt ratios consistently over several years.

### **Asymmetric Additional Risk Considerations**

No asymmetric additional risk considerations affected the ratings.

### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Continued stress on admissions and enrollment trends in fall 2023 and beyond that undermine WPU's efforts to stabilize enrollment and revenues and to sustainably balance its budget;

--Inability to execute planned expense reductions, resulting in insufficient cash flow margins consistently at or below about 6%;

--Material depletion of AF levels or significant additional internally-supported debt;

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incoming classes, recovery in retention rates, or significant further growth in online, graduate and/or international programs;

--Improved cash flow margins consistently around 10% or better;

--Healthy levels of campus reinvestment with stable to improving AF;

--Strengthened leverage metrics over time, such that AF-to-adjusted debt consistently exceeds about 30%;

--Significant improvement over time of the state's funding for operations, capital or retiree benefit costs.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT PROFILE**

Founded in 1855, William Paterson University (WPU) is an independent, mid-sized regional public university and one of the State of New Jersey's 11 public four-year institutions of higher learning. Located on a suburban campus in Wayne Township, Passaic County, in the northern part of the state, WPU is about 20 miles northwest of

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The Middle States Commission on Higher Education affirmed WPU's accreditation in 2021. WPU is governed by a 16-member board of trustees that is required by its by-laws to have two student representatives. Any trustee may be dismissed by the Governor of NJ for cause.

A new Vice President of Finance and Administration, Kirsten Loewrigkeit, joined William Paterson University in January 2023. Ms. Loewrigkeit had seven years' experience at Ramapo College, another NJ public university. The Vice President for Strategic Affairs is currently serving additionally as the interim VP for Enrollment Management until a replacement is hired.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## **APPLICABLE CRITERIA**

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 01 Sep 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance College and University Rating Criteria \(pub. 22 Sep 2022\) \(including rating assumption sensitivity\)](#)

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