

Update of the Financial Condition of Rutgers

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Rutgers recently issued their audited financial statements for the year ended June 30, 2011. This report will provide updates on the original March, 2011 report. The update will report how certain slides in the original report now appear for 2011, and any conclusions that we can draw from the new information.

Slide 2, Executive Summary

The overall financial condition of Rutgers continues to be strong, as 2011 was an excellent year financially for Rutgers. This conclusion is based on:

- Large (\$100 million) increase in reserves
- Revenues exceeding expenses by \$210 million for 2011
- Large positive cash flows (Almost \$200 million)
- Reaffirmation of the strong bond rating for Rutgers by both S&P and Moody's

Slide 4, Statement of Net Assets

During 2011, the following changes occurred:

- Assets increased \$605 million
- Liabilities increased \$358 million (mostly due to new borrowing)
- Net assets increased \$247 million
- Overall, these are positive changes for Rutgers

Slide 6, Analysis of Assets

During 2011, the following changes occurred to cash and investments:

- Cash went from \$273 million to \$476 million
- Investments went from \$1.1 billion to \$1.2 billion
- Some of the cash and investments are restricted, either by donors or by contract (earmarked for a specific purpose).
- The large increase in cash is likely due to the new debt issued, as the capital projects for which the debt was borrowed may not have been started as of June 30, 2011.

Slide 8, Analysis of Liabilities

During 2011, interest-bearing debt increased from \$769.8 million to \$1,122.5 million.

- This increase was due to a new issue of debt.
- The proceeds of the debt were used to refinance some old debt, but prevalently to fund new capital projects.
- It is always positive when a university is engaging in new construction; that means they feel confident enough to build and generate the funds to pay off the debt in the future

Slide 13, Bottom Line Reserves

Amounts in Thoudands	2010	2011	Change from 2010 to 2011
Restricted Expendable	426,755	453,428	26,673
Unrestricted	569,521	683,406	113,885
Total Expendable Net Assets	996,276	1,136,834	140,558
Total Expenses	1,774,987	1,802,353	27,366
Primary Reserve Ratio	56%	63%	7%

- This is very revealing evidence that 2011 was a banner year for Rutgers. Total reserves (total expendable net assets) increased by \$140.558 million from 2010 to 2011
- The \$113.885 million increase in unrestricted net assets is outstanding.
- It had the effect of increasing the primary reserve ratio from 56% to 63%, which is a significant increase

Slide 15, Debt Analysis

Amounts in Thoudands	2010	2011	Change from 2010 to 2011
Total Expendable Net Assets (Reserves)	996,276	1,136,834	140,558
Total Interest-Bearing Debt	769,841	1,122,493	352,652
Viability Ratio	129%	101%	-28%

- Though the amount of debt increased more than reserves, the viability ratio of 101% is still considered very strong

Slide 15, Revenues vs. Expenses, Broad View

Amounts in Thoudands	2010	2011	Change
Total Revenues	1,892,472	2,012,522	120,050
Total Expenses	1,774,987	1,802,353	27,366
Change in Net Assets	117,485	210,169	92,684
As % of Total Revenues (Net Income Ratio)	6.2%	10.4%	4.2%

- From 2010 to 2011, total revenues increased over \$120 million.
- Total expenses only increased \$27 million.
- Yes, Rutgers had a \$210 million profit in 2011!

Slide 21, Moody's Score

In 2011, the overall Moody's score was 4.5, the same as in 2010.

This is an incredibly high score, and the high bond ratings issues in association with the new debt confirm the financial strength of Rutgers.

Slide 22, Rutgers Bond Rating

- On December 9, 2010, S&P affirmed the AA rating (3rd highest out of 23 possible ratings). S&P noted the following strengths:
 - Growing enrollment as the flagship
 - Growing research dollars
 - Solid surpluses (revenues exceed expenses each year)
 - Manageable debt. The report notes that most of the debt is for housing and dining facilities, and those operations generate the revenues to service the debt
 - Capital campaign to raise funds is going well
 - These factors overcome the one downside: the cut of \$28 million in the State appropriation for fiscal 2011

- On October 27, 2010, Moody's reported an Aa2 rating, which is the 3rd highest rating out of 24 potential ratings
 - Strengths cited in the report:
 - Growing enrollment as the flagship
 - Growing research dollars
 - Revenues exceeding expenses (they call this positive operations). They cite operating margins, which are (revenues – expenses) / (revenues).
 - They also cite operating cash flow of 12.5%, which is quite high. This measures cash flows from operations divided by total revenues. Anything above 5% is solid; this is part of the reason they have such a high bond rating.
 - Very strong reserves. Moody's calls these expendable and total financial resources of \$942 million and \$1.3 billion.
 - Solid capital campaign in terms of fundraising (Our Rutgers, Our Future campaign)
 - Challenges cited in the report
 - High debt load
 - State of New Jersey support may decline. However, in their discussion of the State, they note:
 - There is still solid liquidity and reserves, though they are declining
 - The debt level is high
 - The negative outlook for New Jersey is based on the inability to fully fund future pension obligations

- On March 27, 2011, Moody's issued an Aa2 rating on bonds issued through the Housing Authority of the City of New Brunswick.

- The report cite growing enrollment by pointing to the Fall 2010 enrollment figures
- The other strengths and challenges were the same, with one exception. There is an additional challenge cited:
 - Uncertainty with regards to implementing the Governor’s Task Force on Higher Education, citing the merger of UMDNJ into Rutgers. Specifically, the report mentions University Hospital in Newark, which serves a great number of people, but is not doing well financially. This has been reported in the press.

Slide 33, Revenue Analysis

Amounts in Thousands	2010	2011	Change
Tuition and Fees, Net	549,293	614,003	64,710
Grants and Contracts	408,052	415,577	7,525
Auxiliaries	229,169	239,890	10,721
State Appropriation	290,877	273,188	(17,689)
State Appropriation, Fringes	153,132	164,968	11,836
All Other	261,949	304,896	42,947
Total Revenues	1,892,472	2,012,522	120,050

- This is very important evidence to counter the argument that the decline in the State appropriation is hurting Rutgers
- Yes, the \$17.689 million decline from the state hurts; however, note that total revenues increased by \$120 million! Therefore, other revenue sources easily made up for the decline from the State
- In the 2011 report, the administration reported that the State appropriation for 2012 would be the same as for 2011. With other revenue sources likely to increase again, Rutgers will experience another year of strong revenue growth.

Slide 46, Cash Flows

	2010	2011
Cash from Operations	(303,371)	(251,248)
Cash from Non-capital financing	488,088	493,483
Interest Paid on Debt	(37,602)	(44,502)
Total Operational Cash Flows	147,115	197,733

- The amount of positive cash flows is close to \$200 million, an increase of more than \$50 million from 2010.
- This means that Rutgers is generating cash from operations that is quite large