

**New Jersey Educational Facilities
Authority
Stevens Institute Of Technology;
Private Coll/Univ - General
Obligation; Public Coll/Univ -
Unlimited Student Fees**

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Credit Profile

New Jersey Educl Facs Auth, New Jersey

Stevens Institute of Technology, New Jersey

New Jersey Educational Facilities Authority (Stevens Institute of Technology) (Stevens Institute Bonds)

<i>Long Term Rating</i>	BBB+/Positive	Outlook Revised
New Jersey Ed Fac Auth (Stevens Inst of Tech)		
<i>Long Term Rating</i>	BBB+/Positive	Outlook Revised

Credit Highlights

- S&P Global Ratings has revised its outlook to positive from stable and affirmed its 'BBB+' long-term rating on New Jersey Educational Facilities Authority's bonds issued for Stevens Institute of Technology (Stevens or the university).
- The revised positive outlook reflects that the university has increased enrollment in the last two years, with our expectation of continued modest growth, coupled with operating surpluses over the past few years.

Security

As of fiscal year-end 2021, Stevens had \$298 million in debt and lease liabilities. All bonds are a general obligation of the university.

In addition, in February 2020 the university entered into a taxable drawdown bond agreement with PNC Bank. The proceeds of \$26.5 million were drawn in full during fiscal 2022 and while the university had yet to draw down this amount by fiscal year end 2021, we have assumed the full draw in our pro forma debt figures and incorporated the draw into our debt burden calculations. With the series 2020B bonds, total debt and capital leases increased to \$324.6 million. Stevens also has \$4.7 million in operating leases included in the total debt. We consider to be manageable. As of fiscal year-end, the university also had a line of credit with TD Bank for \$35 million. The line is for general corporate purposes and expires in June 2025. As of June 30, 2021, and June 30, 2022, Stevens had no outstanding amounts drawn.

Credit overview

We assessed Stevens' enterprise profile as very strong, characterized by a seasoned and competent senior management team with expertise in key operations; growing enrollment, which is expected to continue; robust student quality; and above-average selectivity rates for the rating category. We assessed Stevens' financial profile as adequate, with strong full-accrual operating performance despite limited revenue diversity offset by weaker available resource

ratios and a moderately high debt burden. Combined, we believe these credit factors led to an indicative standalone credit profile of 'a-'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'BBB+' long-term rating better reflects the university's balance sheet resources ratio and debt burden that are weaker relative to similarly rated peers and medians.

Our view of the following credit factors supports the 'BBB+' long-term rating:

- Growing enrollment with a solid 12.6% increase in total full-time equivalent (FTE) for fall 2021 coupled with a niche program in science, technology, engineering, and math (STEM) at the undergraduate and graduate levels;
- Robust student demand characteristics for the rating category, with selective freshman acceptance rate and solid student quality metrics;
- Strong operating performance, with consecutive full-accrual operating surpluses posted in recent years, including fiscal 2021 and expectation of surpluses to continue during the outlook period; and
- Consecutive, healthy increases in net tuition revenue.

These strengths are partially offset by our view of Stevens':

- Weak matriculation rates, which is reflective of competition;
- High debt levels and a moderate balance sheet with expendable resources to debt at 63.5% assuming a full drawdown of the 2020B bonds; and
- High maximum annual debt service (MADS) burden.

Stevens was founded in 1870 and is located along the Hudson River in Hoboken, New Jersey, across from New York City. It is one of the nation's oldest technology institutions and has a solid niche due to its program offerings in STEM.

Environmental, social, and governance

We view the health and safety social risks posed by the pandemic as somewhat abating for the higher education sector, but, given the pandemic's significant effects on modes of instruction and enrollment trends over the past two-and-a-half years, we believe a future public health event of similar size and scope could again impact demand and finances. As such we view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite elevated social risk, we consider Stevens' environment and governance risks as neutral within our credit rating analysis. .

Outlook

The positive outlook reflects our opinion that during the two-year outlook period, Stevens will continue to grow enrollment while maintaining its student demand metrics. We also expect the university will continue to generate healthy full-accrual operating surpluses and margins, as well as strengthen its available resource ratios. We do not expect any significant additional debt issuance over the outlook period.

Downside scenario

Credit factors that could lead to a negative rating action include significant additional debt that would lead to further weakening of available resources ratios, weaker full-accrual operating performance such that the university is generating operating deficits, and meaningful weakening in demand metrics, or a trend of enrollment decreases.

Upside scenario

We could consider raising the rating if Stevens' balance sheet metrics improve to levels commensurate with higher rating, enrollment trends remain positive, while maintaining student characteristics and operating margins remain near current levels.

Credit Opinion

Enterprise Profile

Market position and demand

In our view, Stevens has good geographical diversity, and draws both domestic and international students. About 42% of total students (graduate and undergraduate) were New Jersey residents in fall 2022 and 41% in fall 2021.

Stevens re-opened in-person classes for the fall 2021 semester. In addition, normal student housing operations were resumed, and housing occupancy has been strong at 98% in for both fall 2021 and fall 2022. Stevens' demand profile overall is solid, characterized by growing enrollment, robust student retention, and excellent student quality. After a slight decline in fall 2020 due to the pandemic, total FTE enrollment improved by 12.6% and 7.1% in fall 2021 and 2022, respectively, resuming a multiyear trend of increasing FTE enrollment that was halted by the pandemic.

Undergraduate demand metrics remain solid even as the university continually focuses on recruiting higher-quality students, which increases competition. Freshman applications have increased substantially in the past few years with an increase of 10.4% and 9.4% in fall 2022 and 2021, respectively. The admission profile remains well above rating category medians, in our view, with an acceptance rate of 46.8% in Fall 2022 an improvement from 52.7% in Fall 2021. The freshman matriculation rate weakened somewhat in recent years, given increased competition for higher-quality students, though entering freshmen classes have been larger than pre-pandemic years. Student quality is substantially higher than the national average and Stevens has an excellent freshman retention rate. Its top cross-application institutions for fall 2022 include Rutgers University--New Brunswick, Northeastern University, Rochester Institute of Technology, Rensselaer Polytechnic Institute, New Jersey Institute of Technology, Cornell University, New York University, Worcester Polytechnic Institute, Carnegie Mellon University, and University of Maryland--College Park. Tuition for students continues to increase, with an all-in cost of \$73,520 for fall 2021, up 1.8% year over year, although the net effective cost is lower for students receiving financial aid. The tuition rates were further increased by 3% in fall 2022 reaching an all -in cost of \$75,704. We view Stevens' tuition increases as being in line with those of peer institutions.

Stevens has a significant graduate presence. Up until the pandemic, the graduate population had been growing. However, graduate FTE enrollment declined 7.9% for fall 2020. The decline was largely from international students.

However, in fall 2022 and fall 2021, graduate FTE grew significantly. Stevens is working with Noodle Partners to expand its online graduate presence. In addition, we understand Stevens is working toward diversifying its international graduate student mix and increasing the proportion of domestic graduate students. Through these efforts, Stevens expects to achieve a graduate population mix of 55% international and 45% domestic students.

Fundraising

Under the current president, several key fundraising changes have occurred in recent years that have strengthened fundraising success. The undergraduate alumni participation is well above the national average at 13% in fiscal years 2021 and 2022. We expect further improvement in Stevens' alumni participation rates as fundraising efforts have gained momentum in recent years due to management's ongoing efforts in reaching out to alumni donors.

Stevens' ongoing comprehensive campaign, "The Power of Stevens," is the largest campaign in its history. The campaign went active in spring 2016 with an initial goal of \$150 million. The university exceeded its goal and extended the campaign with a new goal of \$200 million. Through 2022, it had raised \$200.6 million. We understand this campaign has a broad focus on the endowment, academic programs, and capital projects. This campaign follows a long period of no major capital campaigns since 2004. We expect continuing improvement in the fundraising area given its strategic importance to Stevens.

Management

Stevens' president has been in his position since 2011 and the senior leadership in the finance department has been relatively stable. There has been some turnover in senior leadership with the university appointing a new vice president for enrollment management in August 2022. It also appointed a new vice president for student affairs in July 2022 as well as a new vice president for human resources and chief human resources officer in September 2022. We understand that the president's cabinet is now fully staffed, and no further changes are expected.

The university also embarked on a new strategic plan: "Stevens 2032: Inspired by Humanity, Powered by Technology". This is a 10-year plan with nine major goals. Most of the goals are an extension of the previous plan with an emphasis on student experience, research and innovation, diversity and inclusion, and sustainability. The plan details goals and metrics for each pillar and the university will include annual updates on progress on each of them. We view the plan as robust and expect that this will help guide the university for the next decade.

Financial Profile

Financial operations

We view Stevens' financial policies as solid, bolstered by robust financial and capital planning and a track record of outperforming its budget and achieving positive operations while growing its balance sheet. Stevens maintains a long-term investment policy and debt policy. In addition to generating full-accrual audited financial statements published externally--which is typical--it generates monthly full-accrual financial statements for internal review by both management and the finance committee of the board of trustees. It also informally has to maintain a minimum net operating margin target of 3% to 5% and enhance its cash balance with a target to increase year-end uncommitted cash balances annually.

In fiscal 2021, the Higher Education Emergency Relief Fund (HEERF) allocated the university \$4.5million from the Coronavirus Response and Relief Supplemental Appropriations Act, of which approximately \$2.9 million was for institutional use and \$1.6 million was applied towards direct student aid. Stevens also received \$1.7 million from the state under the CARES Act for institutional purposes. The university also received \$8.2 million under the American Rescue Plan Act, of which \$4.1 million has been allocated to student aid. Stevens ended fiscal 2021 with a robust surplus of \$16.6 million. Stevens has achieved more than a decade of consecutive years of positive unrestricted operating performance on a full-accrual basis since fiscal 2010, including fiscal 2021, and we expect this to continue. We attribute these operating surpluses largely to healthy enrollment increases and growing student-related revenues; implementation of several policies that have enhanced internal controls; and conservative budgeting practices, which include budgeting for depreciation as well as contingencies. Stevens closed fiscal 2021 with an unrestricted net adjusted operating surplus of \$16.6 million (4.78% operating margin), despite a \$13.9 million decline in auxiliary revenues. Auxiliary revenues declined in housing, dining, and parking as well as lost revenues from facilities rentals. Overall auxiliary revenues represent 2.71% of adjusted operating revenues. These revenue declines were offset by discretionary expense savings measures, some of which have continued into fiscal 2021, and include furloughs, a wage freeze, and a soft hiring freeze.

For fiscal 2022, the university continues to implement controls on expenditures and anticipates a surplus. The university received governmental institutional aid to help offset decreased enrollment and increased COVID-19-related costs. Based on preliminary year-end result, Stevens anticipates another operating surplus in the range of fiscal 2021 or higher. We view the continued financial resilience of the university favorably. For fiscal 2023, management has budgeted for a moderate surplus of 2%. Fiscal 2023's budget includes higher net tuition revenues due to modest tuition increases, flat enrollment, particularly graduate, enrollment, and higher auxiliary revenues due to opening of University Center Complex. On the other hand, operating expenses also rose due to increases in contractual obligations, strategic investments, and reallocation of COVID 19 reserve funds. The preliminary fiscal 2023 budget assumes a surplus and more normalized revenues.

As with many private colleges and universities, Stevens remains heavily dependent on student charges, which accounted for 83.3% of fiscal 2021 adjusted operating revenues. In our view, this makes it susceptible to potential enrollment shifts and discounting. This is followed by government grants and contracts at 13.2% (research and grants) and endowment income at a much smaller 2%. Stevens is focused on increasing its grant revenues with the recruitment of new faculty and expects to see research expand over time.

Available resources

Stevens' available resources (as measured by expendable resources and cash and investments) are in line with the rating. Our calculation of expendable resources is unrestricted net assets plus temporarily restricted net assets less [net plant, property, and equipment (PP&E) minus long-term debt]. We consider temporarily restricted net assets to be donor restricted assets that are restricted for time or purpose as reported in the audited financial statements. Stevens' expendable resources equaled \$206.6 million as of June 30, 2021, which equaled 59.2% of adjusted operating expenses and 63.5% of pro forma debt. Cash and investments, which we consider a less conservative measure of balance-sheet strength due to the inclusion of a high proportion of restricted funds, was \$356.0 million, equaling 102% of adjusted operating expenses, and 109.4% of pro forma debt as of June 30, 2021.

In fiscal 2021, the total endowment increased to \$272.9 million, which was up 21% from the previous year. However, through fiscal 2022, the endowment has dipped to \$269.3million. We understand asset allocations remained fairly consistent with target allocation ranges, with no material changes expected in the near term. The endowment asset allocation as of June 2022 was 47.7% equities (including U.S. equity and non-U.S. equity), 21.6% private equity/alternatives, 20.7% fixed-income and cash instruments, 6.6% hedge funds, and the remainder in other assets.

Almost all assets are categorized as level 1, according to fair-value disclosure in the fiscal 2021 audit, which we view as a proxy for liquidity and consider the most liquid. The endowment spending rate was 4.5% for fiscal 2021 and fiscal 2022 and is likely to remain near this level for the foreseeable future. We consider these spending rates prudent given the need to increase the endowment over the long term.

Capital plans

The series 2020 bonds were used for the construction of two towers of student housing and a new university center, which supports the university's 10-year strategic plan. The new student housing resulted in approximately 860 additional beds on campus and a meeting place for members of the university community. Construction began in March 2019, with facilities opened in May 2022. In connection with this project, the school had demolished two small buildings on the construction site--a dormitory and student activities facility. This project was strategically important to Stevens' focus on enrollment growth. Before the pandemic, the university was only able to house approximately 30% of its undergraduate students on campus and the cost of living off campus in Hoboken has had a negative impact on recruitment. With the addition of this on-campus housing, Stevens will benefit financially from moving students on campus and also fostering a community experience for its students. Given the revenue-generating aspect of this project, it is our opinion that the university will be able to sufficiently service the debt payments, and higher debt burden associated with the project.

Debt and contingent liabilities

As of fiscal year-end 2021, Stevens had \$298 million in debt and leases liabilities. In addition, with the PNC drawdown agreement, pro forma debt rises to \$325.3 million. Stevens also has \$4.7 million in operating leases included in our total debt. We consider to be manageable. As per management, these operating leases are largely for off-campus housing facilities that Stevens does not expect to renew after the completion of their new housing project unless demand exceeds capacity in the expanded on-campus housing. These leases can be terminated on a short-term, typically annual, basis. As of fiscal year-end, the university had a \$35 million line of credit with TD Bank with no outstanding amounts drawn.

We do not believe that the PNC debt presents a credit risk given that Stevens has ample liquidity to cover the nominal proposed amount of directly placed debt. The fiscal 2021 MADS burden does not include operating lease payments but does include the PNC debt (drawn in full during fiscal year 2022) and is currently 5.6% but would rise above 6.3% if operating lease payments were included.

Stevens offers employees a defined-contribution retirement plan, which by definition is fully funded. It also provides other postretirement health benefits (OPEBs) to substantially all of its employees. We understand OPEB costs are funded on a pay-as-you-go basis, which is intended to continue. We view the liability associated with Stevens' OPEB health plan (\$6.1 million as of June 30, 2021) as manageable given its current level of available resources.

Stevens Institute Of Technology, New Jersey Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges and universities
	2022	2021	2020	2019	2018	2021
Enrollment and demand						
Headcount	8,287	7,512	7,559	7,288	7,161	MNR
Full-time equivalent	7,313	6,496	6,588	6,242	6,130	2,454
Freshman acceptance rate (%)	52.7	53.1	40.0	41.4	43.9	78.2
Freshman matriculation rate (%)	18.3	16.7	23.1	26.3	20.8	16.5
Undergraduates as a % of total enrollment (%)	49.0	50.5	48.4	47.1	43.6	77.8
Freshman retention (%)	93.0	93.0	94.0	95.0	94.0	78.1
Graduation rates (six years) (%)	87.0	88.0	85.0	87.0	83.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	365,764	367,576	349,660	328,605	MNR
Adjusted operating expense (\$000s)	N.A.	349,080	353,216	325,867	301,318	MNR
Net operating income (\$000s)	N.A.	16,684	14,360	23,793	27,287	MNR
Net operating margin (%)	N.A.	4.78	4.07	7.30	9.06	1.80
Change in unrestricted net assets (\$000s)	N.A.	26,397	41,400	28,471	36,703	MNR
Tuition discount (%)	N.A.	34.2	31.6	31.0	30.2	44.0
Tuition dependence (%)	N.A.	80.6	78.7	75.8	76.6	MNR
Student dependence (%)	N.A.	83.3	85.2	84.6	85.5	85.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	13.2	10.9	9.6	9.6	MNR
Endowment and investment income dependence (%)	N.A.	2.0	1.8	1.8	1.8	MNR
Debt						
Outstanding debt (\$000s)	N.A.	298,869	298,133	133,683	132,029	60,809
Proposed debt (\$000s)	N.A.	26,485	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	325,354	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	19,570	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.62	2.84	3.21	2.16	MNR
Current MADS burden (%)	N.A.	5.61	5.54	3.06	3.30	4.30
Pro forma MADS burden (%)	N.A.	5.61	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	272,887	225,009	224,304	206,806	107,786
Cash and investments (\$000s)	N.A.	356,092	289,029	275,656	252,252	MNR
Unrestricted net assets (\$000s)	N.A.	228,314	201,917	160,517	132,046	MNR
Expendable resources (\$000s)	N.A.	206,604	269,924	168,911	199,668	MNR
Cash and investments to operations (%)	N.A.	102.0	81.8	84.6	83.7	114.3

Stevens Institute Of Technology, New Jersey Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges and universities
	2022	2021	2020	2019	2018	2021
Cash and investments to debt (%)	N.A.	119.1	96.9	206.2	191.1	204.2
Cash and investments to pro forma debt (%)	N.A.	109.4	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	59.2	76.4	51.8	66.3	72.9
Expendable resources to debt (%)	N.A.	69.1	90.5	126.4	151.2	129.4
Expendable resources to pro forma debt (%)	N.A.	63.5	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.3	12.0	12.3	12.2	15.6

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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