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

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| Stevens Institute of Technology, New Jersey | | |
| New Jersey Educational Facilities Authority (Stevens Institute of Technology) (Stevens Institute Bonds) | | |
| *Long Term Rating* | BBB+/Stable | Affirmed |
| New Jersey Ed Fac Auth (Stevens Inst of Tech) | | |
| *Long Term Rating* | BBB+/Stable | Affirmed |

## Rating Action

S&P Global Ratings 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 outlook is stable.

As of fiscal year-end 2020, Stevens had $298 million in debt and capital leases outstanding. In addition, in February 2020 the university entered into a taxable drawdown bond agreement with PNC Bank. The maximum draw is $26.5 million and while the university has yet to draw down this amount, 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. All bonds are a general obligation of the university. Stevens also has $5.6 million in operating leases, which 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 May 2022. As of June 30, 2020, Stevens had no outstanding amounts drawn.

Stevens re-opened for the fall 2020 semester with a combination of online and hybrid instruction. In addition, student housing was de-densified and housing went from an occupancy level of 98% in fall 2019 to 74% in fall 2020. Stevens worked to eliminate triples and quads and created quarantine facilities. Fall 2020 enrollment metrics reflect a slight decline of 1.4% total full-time equivalents (FTEs), halting a multiyear trend of increasing FTE enrollment. While undergraduate enrollment increased, the decline was primarily a result of international graduate student declines. Stevens is not particularly reliant on international enrollment at the undergraduate level, as international students represented approximately 2.8% and 2.6% of undergraduate enrollment in fall 2019 and 2020, respectively. However, international students comprised 76.7% of the graduate student body in fall 2019 and 69.7% in fall 2020. For fall 2020, international graduate students declined by 355 FTEs, representing the majority of the almost 8% decline in graduate student enrollment. Many of those students, however, held deposits with Stevens to enroll this coming fall.

Due to the COVID-19 pandemic, to protect the health and safety of its students, faculty, and staff, Stevens transitioned to online learning in spring 2020 and issued prorated refunds for housing, dining, and parking. These refunds totaled $4.7 million. Overall, Stevens had a decline in auxiliary revenues of $6.8 million in fiscal 2020 compared with the previous year. This included declines in housing, dining, parking, and facility rental revenues. Overall auxiliary revenues represent 6.3% 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. In fiscal 2020, the university was allocated a total of $3.1 million from the Higher Education Emergency Relief Fund (HEERF) from the Coronavirus Aid, Recovery, and Economic security (CARES) Act, of which approximately $1.56 million was allocated for institutional use. Stevens also received $1.7 million from the state under the CARES Act for institutional purposes. In fiscal 2020, Stevens recognized $756,000 in CARES Act institutional funding, in addition to $756,000 in direct student aid, with the balance to be recognized in fiscal 2021. Stevens ended fiscal 2020 with a robust surplus of $22.6 million, $1.2 million lower than the previous year.

For fiscal 2021, Higher Education Emergency Relief Fund II is authorized by the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) and Stevens was awarded approximately $4.5 million, of which $2.9 million will be for institutional purposes and the remainder for student financial aid. In addition, under HEERF III (The American Rescue Plan), Stevens is expected to receive $8.2 million, of which $4.1 million will be allocated to student aid and $4.1 million for institutional funds. For fiscal 2021, the university continues to implement controls on expenditures and anticipates a modest surplus when institutional aid is used to help offset decreased enrollment and increased COVID-19-related costs. At present, Stevens has budgeted for a 2% surplus, which we believe is achievable. We would expect that stimulus funds will also be used in fiscal 2022, which should help the university as it returns to normal operations, and Stevens should be able to maintain operating surpluses. At present, initial reports for fall 2021 enrollment are encouraging with record increases in applications and anticipation of increased graduate enrollment. We expect enrollment will rebound to more normal levels. The university has a line of credit totaling $35 million, which should provide ample short-term liquidity should the need arise.

## Credit overview

We assessed Stevens' enterprise profile as very strong, characterized by a seasoned and competent senior management team with expertise in key operations; stable 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 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:

- Niche programs 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 2020 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 with expendable resources to debt at 83% assuming a full drawdown of the 2020B bonds; and
- High maximum annual debt service (MADS) burden.

Stevens is located across the Hudson River from New York City in Hoboken. It has a solid niche due to its program offerings in STEM.

The stable outlook reflects our opinion that during the two-year outlook period, Stevens will see stable 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 maintaining available resource ratios at current levels. We do not expect any significant additional debt issuance over the outlook period.

### Environmental, social, and governance (ESG) factors

In our view, higher education entities face elevated social risk due to uncertainty on the duration of the COVID-19 pandemic. Due to the pandemic, Stevens' management team moved to implement remote learning in spring 2020 and is currently operating under a hybrid learning environment for the academic year. In conjunction with a more coordinated and effective rollout of the vaccine, we believe management has taken prudent actions regarding the health and safety of its students, faculty, and staff through its hybrid instruction mode. 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 to be in line with our view of the sector as a whole, as Steven has historically maintained healthy management and governance controls.

## Stable Outlook

### Upside scenario

We could consider raising the rating if Stevens' balance sheet metrics improve, enrollment trends remain positive, and matriculation improves while maintaining current robust operating margins.

### 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, 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.

## Credit Opinion

# Enterprise Profile

### Economic fundamentals

In our view, Stevens has good geographical diversity, and draws both domestic and international students. About 44% of total students (graduate and undergraduate) were New Jersey residents in fall 2020. Therefore, our assessment of Stevens' economic fundamentals is anchored by the U.S. GDP per capita.

### Market position and demand

Stevens' demand profile overall is solid, characterized by growing enrollment, robust student retention, and excellent student quality. Total FTE enrollment declined slightly for fall 2020 due to the pandemic but overall has increased 9.9% over the past five years. The enrollment decline for fall 2020 was largely related to international graduate students. However, undergraduate matriculation was weaker than in previous years due to competition and the pandemic, and the entering freshman class was slightly smaller than in past years, although selectivity and student quality remained strong. For fall 2021, management is planning for normalized operations on campus with an increased freshman class size of 1,050, which would bring undergraduate FTEs to a projected 3,944. We believe this to be achievable given Stevens' history of enrollment growth, increased vaccinations (which will be required for all students, faculty and staff), and the fact that year-to-date applications have been at record highs.

Undergraduate demand metrics remain solid even as the university focuses on recruiting higher-quality students, which increases competition. Freshman applications have increased substantially in the past few years and held even for fall 2020. The admission profile remains well above rating category medians, in our view, with an acceptance rate of 50%. The freshman matriculation rate weakened somewhat in recent years, given increased competition for higher-quality students, and for fall 2020 the pandemic additionally affected matriculation. Student quality is substantially higher than the national average and Stevens has an excellent freshman retention rate. Its top cross-application institutions for fall 2021 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 $71,956, up 3.1% year over year, although the net effective cost is lower for students receiving financial aid. 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. Stevens draws a large percentage of international students from both China and India and this has affected enrollment for fall 2020. 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. We expect to see graduate enrollment rebound for this fall as a result of the university's marketing efforts. To date, applications are up from 2019 and 2020 levels.

### Fundraising

Under the current president, several key fundraising changes have occurred in recent years, which have strengthened fundraising success. The undergraduate alumni participation is well above the national average at 13% in fiscal 2020. 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 decided to extend the campaign with a new goal of $200 million to be completed by June 30, 2021. As of March 15, 2021, Stevens raised $193.9 million toward the campaign and is on track to meet its $200 million goal by fiscal year-end. 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 has been relatively stable. The university appointed a new vice president for information technology and a new vice president for development and alumni engagement during the past year, and the provost recently announced his retirement at the end of this academic year. There are no other changes in the president's cabinet. After assuming his position, the president made some structural changes to Stevens' administrative and reporting structure, including a reorganization of the enrollment division. The current chief financial officer and vice president for finance joined Stevens in 2015 and has extensive private industry and higher education experience. The rest of the senior leadership also remains stable with long tenure at the university.

The university is nearing the end of a 10-year strategic plan that began in 2012 and goes through 2022. The goal of the plan was to develop priorities in broad areas, and qualitative and quantitative goals. Management regularly assesses progress and adjusts the plans as necessary. Early work on a new strategic plan is anticipated to begin later this year and will include the new provost.

## Financial Profile

### Financial management policies

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 operates according to a 10-year strategic plan that runs from 2012 through 2022, further supported by multiyear comprehensive financial and capital plans. The university approved a new debt policy in May 2019 and key provisions include setting of debt limits, general guidelines regarding the use of debt, and limiting the use of debt to fund capital expenditures. Cash and debt management functions are centralized and derivatives have not been utilized. In addition, as part of its ongoing financial planning, the school informally aims to maintain a minimum net operating margin target in the 3%-5% range and enhance its cash balance with a target to increase year-end uncommitted cash balances annually.

We consider Stevens' financial disclosures above average relative to peers'. 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. Stevens has either met or outperformed its budgets in recent years. The financial policies assessment reflects our opinion that, while there may be some areas of risk, Stevens' overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of Stevens' financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with similar providers.

### Financial operations

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 2020, 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 2020 with an unrestricted net adjusted operating surplus of $22.6 million (6.4% operating margin), despite a $6.8 million decline in auxiliary revenues. Auxiliary revenues declined in housing, dining, and parking as well as lost revenues from facilities rentals. In addition, the university experienced increased expenses associated with COVID-19. These lost revenues and increased COVID-19-related expenses were offset by reductions in discretionary spending and the receipt of $756,000 for the institutional portion of CARES Act funding. For fiscal 2021, management has budgeted for another surplus in the target range of 2%. We anticipate that Stevens will exceed its budget as it has a history of exceeding its budget and through the first seven months of the fiscal year, Stevens is ahead of its budget. Fiscal 2021's budget includes lower net tuition revenues due to lower enrollment, particularly graduate, enrollment and lower auxiliary revenues due to de-densification of student dorms. It also includes expense reduction measures including limitation on pay increases; a hiring freeze; delayed hiring of several positions; reductions due to layoffs; and continued discretionary spending controls. Management will likely re-evaluate these measures as fiscal 2022 returns to more normalized operations. The preliminary fiscal 2022 budget assumes a surplus and more normalized revenues. Not incorporated into the budget at this point are any funds from the American Rescue Plan Act.

As with many private colleges and universities, Stevens remains heavily dependent on student charges, which accounted for 83.3% of fiscal 2020 adjusted operating revenues. In our view, this makes it susceptible to potential enrollment shifts and discounting pressures given that this dependence has grown over time. This is followed by government grants and contracts at 10.6% (research and grants) and endowment income at a much smaller 1.8%. 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 $269.9 million as of June 30, 2020, which equaled 76.4% of adjusted operating expenses and 83.2% 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 $289.0 million, equaling 81.8% of adjusted operating expenses, and 89.0% of pro forma debt as of June 30, 2020.

In fiscal 2020, the total endowment increased to $225 million, which was up slightly from the previous year. However, through Feb. 28, 2021, the endowment has increased to $250 million. 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 2020 was 45% equities (Including U.S. equity and non-U.S. equity), 12% private equity, 28% fixed-income and cash instruments, 5% hedge funds, and the remainder in other assets.

Almost all assets are categorized as level 1, according to fair-value disclosure in the fiscal 2020 audit, which we view as a proxy for liquidity and consider the most liquid. The endowment spending rate was 4.5% for fiscal 2020 and is likely to remain at 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 will result in approximately 860 additional beds on campus and a meeting place for members of the university community. Construction began in March 2019, with facilities expected to be operational by May 2022. In connection with this project, the school has demolished two small buildings on the construction site--a dormitory and student activities facility. This project is 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 2020, Stevens had $298 million in debt and capital leases outstanding. In addition, with the PNC drawdown agreement, pro forma debt rises to $324.6 million. Stevens also has $5.6 million in operating leases, which 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 when drawn will present a credit risk given that Stevens has ample liquidity to cover the nominal proposed amount of directly placed debt. The MADS debt burden does not include operating lease payments but does include the planned drawdown of the PNC loan and is currently 5.5% but would rise above 7% 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 ($6.3 million as of June 30, 2020) 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-- |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2019 |
| **Enrollment and demand** | | | | | | |
| Headcount | 7,512 | 7,559 | 7,288 | 7,161 | 6,913 | MNR |
| Full-time equivalent | 6,496 | 6,588 | 6,242 | 6,130 | 5,910 | 2,806 |
| Freshman acceptance rate (%) | 53.1 | 40.0 | 41.4 | 43.9 | 39.1 | 72.0 |
| Freshman matriculation rate (%) | 16.7 | 23.1 | 26.3 | 20.8 | 25.4 | MNR |
| Undergraduates as a % of total enrollment (%) | 50.5 | 48.4 | 47.1 | 43.6 | 45.1 | 73.9 |
| Freshman retention (%) | 93.0 | 94.0 | 95.0 | 94.0 | 95.0 | 79.0 |
| Graduation rates (six years) (%) | 88.0 | 85.0 | 87.0 | 83.0 | 83.0 | MNR |
| **Income statement** | | | | | | |
| Adjusted operating revenue ($000s) | N.A. | 375,851 | 349,660 | 328,605 | 314,718 | MNR |
| Adjusted operating expense ($000s) | N.A. | 353,216 | 325,867 | 301,318 | 291,104 | MNR |
| Net operating income ($000s) | N.A. | 22,635 | 23,793 | 27,287 | 23,614 | MNR |
| Net operating margin (%) | N.A. | 6.41 | 7.30 | 9.06 | 8.11 | 0.00 |
| Change in unrestricted net assets ($000s) | N.A. | 41,400 | 28,471 | 36,703 | 31,545 | MNR |
| Tuition discount (%) | N.A. | 31.6 | 31.0 | 30.2 | 30.0 | 40.6 |
| Tuition dependence (%) | N.A. | 77.0 | 75.8 | 76.6 | 76.4 | MNR |
| Student dependence (%) | N.A. | 83.3 | 84.6 | 85.5 | 85.6 | 89.0 |
| Health care operations dependence (%) | N.A. | N.A. | N.A. | N.A. | N.A. | MNR |
| Research dependence (%) | N.A. | 10.6 | 9.6 | 9.6 | 10.1 | MNR |
| Endowment and investment income dependence (%) | N.A. | 1.8 | 1.8 | 1.8 | 2.0 | MNR |
| **Debt** | | | | | | |
| Outstanding debt ($000s) | N.A. | 298,133 | 133,683 | 132,029 | 133,682 | 60,453 |
| Proposed debt ($000s) | N.A. | 26,485 | N.A. | N.A. | N.A. | MNR |
| Total pro forma debt ($000s) | N.A. | 324,618 | N.A. | N.A. | N.A. | MNR |
| Pro forma MADS | N.A. | N.A. | N.A. | N.A. | N.A. | MNR |
| Current debt service burden (%) | N.A. | 2.84 | 3.21 | 2.16 | 1.54 | MNR |
| Current MADS burden (%) | N.A. | 5.54 | 3.06 | 3.30 | 3.75 | 4.00 |
| Pro forma MADS burden (%) | N.A. | N.A. | N.A. | N.A. | N.A. | MNR |
| **Financial resource ratios** | | | | | | |
| Endowment market value ($000s) | N.A. | 225,009 | 224,304 | 206,806 | 183,933 | 81,634 |
| Cash and investments ($000s) | N.A. | 289,029 | 275,656 | 252,252 | 220,679 | MNR |

**Stevens Institute of Technology, New Jersey--Enterprise And Financial Statistics (cont.)**

| | --Fiscal year ended June 30-- | | | | | --Medians for 'BBB' rated private colleges and universities-- |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2019** | **2018** | **2017** | **2019** |
| Unrestricted net assets ($000s) | N.A. | 201,917 | 160,517 | 132,046 | 95,343 | MNR |
| Expendable resources ($000s) | N.A. | 269,924 | 168,911 | 199,668 | 185,824 | MNR |
| Cash and investments to operations (%) | N.A. | 81.8 | 84.6 | 83.7 | 75.8 | 84.0 |
| Cash and investments to debt (%) | N.A. | 96.9 | 206.2 | 191.1 | 165.1 | 164.9 |
| Cash and investments to pro forma debt (%) | N.A. | 89.0 | N.A. | N.A. | N.A. | MNR |
| Expendable resources to operations (%) | N.A. | 76.4 | 51.8 | 66.3 | 63.8 | 47.0 |
| Expendable resources to debt (%) | N.A. | 90.5 | 126.4 | 151.2 | 139.0 | 85.6 |
| Expendable resources to pro forma debt (%) | N.A. | 83.2 | N.A. | N.A. | N.A. | MNR |
| Average age of plant (years) | N.A. | 12.0 | 12.3 | 12.2 | 13.1 | 15.0 |

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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020