S&P Global Ratings

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

Credit Highlights

- S&P Global Ratings has 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 remains positive.

Security

As of fiscal year-end 2023, Stevens had $317 million in debt and lease liabilities. All bonds are a general obligation of the university.

Stevens also has $1.5 million in operating leases included in the total debt, which we consider to be manageable. As per management, these operating leases are for off campus administrative office space and are expected to be maintained for the next several years.. Stevens also has an $828,000 Higher Education Equipment Leasing Fund program (HEELF) that it will assume principal payments on starting fiscal 2025, and we have included that in our pro forma debt. As a result, total pro forma debt outstanding is $318 million. No additional debt plans are reported for the outlook period. As of fiscal year-end, the university also had a line of credit with TD Bank for $50 million. The line is for general corporate purposes and expires in June 2025. As of June 30, 2023, and June 30, 2022, Stevens had no outstanding amounts drawn.

Credit overview

We assessed Stevens' enterprise risk profile as very strong, characterized by a seasoned and competent senior management team with expertise in key operations; enrollment growth, robust student quality; and above-average selectivity rates for the rating category. We do, however, note that total enrollment declined 5% in fall 2023 primarily driven by the graduate student population, and we expect this to continue for fall 2024. We assessed Stevens' financial risk profile as adequate, with consistent full-accrual operating performance despite limited revenue diversity offset by weaker financial resource ratios relative to the rating category. Combined, we believe these credit factors led to an anchor of 'a-'. As our criteria indicate, the final rating can be within one notch of the anchor and in our opinion, the 'BBB+' long-term rating better reflects the university's balance sheet resources ratio that are weaker relative to similarly rated peers and medians.

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

- Niche program offering in science, technology, engineering, and math (STEM) at the undergraduate and graduate level that helps the university maintain differentiation from competition in the geographic location;
- Healthy operating performance, with consecutive full-accrual operating surpluses posted in recent years, including fiscal 2023 and expectation of surpluses to continue during the outlook period;
- Robust student demand characteristics for the rating category, with selective first-time, first-year acceptance rate and solid student quality metrics; and
- Consecutive, healthy increases in net tuition revenue.

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

- Decline of 5% in total full-time enrollment for fall 2023 relative to prior year, though we recognize that over the long term the university has shown approximately 20% cumulative growth over the last five-year period;
- Weak matriculation rates, which is reflective of competition;
- Moderate balance sheet with cash and investments to operations at 82.7% and slightly stronger relative to pro forma debt at 124.8%.

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 analyzed Steven's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance. We view Stevens environmental risk as elevated, as its exposure to the Atlantic coastline presents a chronic and physical climate risk that could affect them in the longer term. We view the social and governance factors as neutral in our credit rating analysis.

Outlook

The positive outlook reflects our opinion that despite some declines expected at the graduate student level, Stevens will continue to grow undergraduate enrollment while maintaining its student demand metrics such that they narrow the overall decline in total full-time equivalent (FTE) enrollment. We also expect the university will continue to generate consistent full-accrual operating surpluses and margins, as well as maintain its financial resource ratios. We do not expect any significant additional debt issuance over the outlook period.

Downside scenario

Credit factors that could lead to a revision to stable include continued declines in total full-time enrollment that are unaddressed or weakening of financial resources ratios. We would also view weaker full-accrual operating margins, and meaningful weakening in demand metrics negatively. Additional debt issuance without commensurate growth in resources would also be viewed negatively.

Upside scenario

We could consider raising the rating if Stevens' financial resource ratios improve, enrollment trends stabilize , while maintaining student characteristics and operating margins remain near current levels.

Credit Opinion

Enterprise Risk Profile--Very Strong

Market position and demand

In our view, Stevens has good geographical diversity, and draws both domestic and international students. About 40% of total students (graduate and undergraduate) were New Jersey residents in fall 2023 and 42% in fall 2022.

Stevens' demand profile overall is solid, characterized by growing long-term enrollment, robust student retention, and excellent student quality. After a slight decline in fall 2020 due to the pandemic, total FTE enrollment improved by 14% and 13% in fall 2022 and 2021, respectively, but softened by 5% in fall 2023 reversing the previous years' trend of improvements. Per management this was driven by lower enrollments on the graduate student population. Stevens has a significant graduate presence and up until the pandemic, the graduate population had been growing. However, graduate FTE enrollment declined 10% for fall 2023. The decline was largely from international students. Stevens is working to expand its online graduate presence and we understand that Stevens is also working toward diversifying its international graduate student mix and increasing the proportion of domestic graduate students. Although another decline is projected for the fall 2024 incoming class, Stevens expect to stabilize this during the outlook period.

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 13.4% and 10.4% in fall 2023 and 2022, respectively. The admission profile remains well above rating category medians, in our view, with an acceptance rate of 43.4% in fall 2023, an improvement from 46.2% in fall 2022. 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 2023 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 tuition, fees, room and board of $79,602 for fall 2023, up by 5.1% year over year from fall 2022, 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. In addition, housing occupancy has been strong at 97% and 98% in fall 2023 and fall 2022, respectively.

Management expects fall 2024 undergraduate tuition discounts for first-time, first-year students to be about 48% with the overall blended rate of 45.8%; graduate blended rate is expected to be 11.3%, which are consistent with fall 2023. We view the stability in maintaining tuition discount rate as a positive factor.

Fundraising

Under the current president, several key fundraising changes have occurred in recent years that have strengthened fundraising success. The undergraduate alumni participation has maintained around the national average at 10% in fiscal years 2023. We expect continued 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. Current year-to-date fundraising revenue is $12 million relative to $9 million at the same time in the prior year. The annual giving projection is $6 million, and management reports it is tracking well relative to goal. Management is actively in discussion of its next fundraising campaign including the timing and amount.

Stevens' last comprehensive campaign, "The Power of Stevens," was 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. The campaign closed in 2021 with a total amount raised of $200.6 million. This campaign had a broad focus on the endowment, academic programs, and capital projects. Given leadership's focus, we expect continuing improvement in the fundraising area due to 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 stable. There has been no recent turnover in senior leadership; however, a search for a chief online learning officer and dean of professional education to lead a new College of Online and Professional Education was recently completed and a search for the dean of the School of Business is currently underway. Management reports that no further changes are expected. At the board level, Stevens added 5 new board members and there was no turnover outside of normal cycles. We view the stability in leadership and board favorably and believe it lends strength to the credit.

The university is making progress on its 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 Risk Profile--Adequate

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 2023, 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. It also informally has a policy to generate 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. Stevens closed fiscal 2023 with an unrestricted net adjusted operating surplus of $19.7 million (4.11%

operating margin), assisted by healthy growth in net tuition revenue of $28 million or 12%. Auxiliary revenues increased significantly by $14 million or 60% in housing, dining, and parking as well as facilities rentals. Fiscal 2023 was the first full year of the university center complex in operation, which helped in increasing room and board revenues. Overall auxiliary revenues represent 7.43% of adjusted operating revenues.

For fiscal 2024, while management is expecting another surplus, it is projected to be modest relative to fiscal 2023. Given the declines in graduate enrollment coupled with inflationary challenges the margin is expected to be lower; however, the university is working diligently to identify more expense savings to help generate a healthier surplus. We view the continued financial resilience of the university favorably.

As with many private colleges and universities, Stevens remains heavily dependent on student charges, which accounted for 85% of fiscal 2023 adjusted operating revenues. In our view, this makes it susceptible to potential enrollment shifts and tuition discounting. Tuition charges are expected to increase 4% for undergraduates and 3.5% for graduates for fall 2024. Government grants and contracts accounted for 11.14% of fiscal 2023 adjusted operating revenue and endowment income accounted for approximately 2%. Stevens is focused on increasing its research grant revenues with the recruitment of new faculty and expects to see research expand over time.

Financial resources

Stevens' financial resources (as measured by cash and investments) are weaker compared to the rating category. Stevens' cash and investments equaled $396.9 million as of June 30, 2023, which equaled 82.7% of adjusted operating expenses and 124.8% of pro forma debt. In our view, the balance sheet strength is somewhat a constraining factor for the rating.

In fiscal 2023, the total endowment increased to $319 million, which was up 22% from the previous year 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 2023 was 47% equities (including U.S. and Non-U.S.), 16% Private Equity, 23% fixed income, 6% hedge-funds and the remaining 8% in other assets.

Almost all assets are categorized as level 1, according to fair-value disclosure in the fiscal 2023 audit, which we view as a proxy for liquidity and consider the most liquid. The endowment spending rate was 4.4% for fiscal 2023, a reduction from 4.5% in fiscal 2022 and the rate was further lowered to 4.3% in fiscal 2024. We consider these spending rates prudent given the need to increase the endowment over the long term.

Debt and contingent liabilities

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 as well as continue to terminate all external operating lease arrangements for housing that are off-campus.

In our opinion, series 2020B held by PNC bank does not present a credit risk given that Stevens has ample liquidity to cover the nominal proposed amount of directly placed debt. The fiscal 2023 maximum annual debt service burden inclusive of lease payments is currently at 4.24%. 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 ($4 million as of June 30, 2023) as manageable given its current level of available resources.

Stevens Institute of Technology, New Jersey--enterprise and financial statistics

	--Fiscal year ended June 30--				
	2024	**2023**	**2022**	**2021**	**2020**
Enrollment and demand					
Full-time-equivalent enrollment	7,922	8,339	7,313	6,496	6,588
Undergraduates as a % of total enrollment	51.5	48.7	55.3	58.3	55.4
First-year acceptance rate (%)	43.4	46.2	52.7	53.1	40.0
First-year matriculation rate (%)	16.6	17.5	18.3	16.7	23.1
First-year retention rate (%)	94.0	93.0	93.0	93.0	94.0
Six-year graduation rate (%)	90.0	88.0	87.0	88.0	85.0
Income statement					
Adjusted operating revenue ($000s)	N.A.	499,346	443,635	365,764	367,576
Adjusted operating expense ($000s)	N.A.	479,649	415,856	349,080	353,216
Net operating margin (%)	N.A.	4.1	6.7	4.8	4.1
Change in unrestricted net assets ($000s)	N.A.	21,689	40,086	26,397	41,400
Tuition discount (%)	N.A.	33.0	34.0	34.2	31.6
Student dependence (%)	N.A.	84.8	84.0	83.3	85.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	11.1	13.0	13.2	10.9
Debt					
Outstanding debt ($000s)	N.A.	317,150	319,276	298,869	298,133
Proposed debt ($000s)	N.A.	828	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	317,978	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	3.9	5.0	4.6	2.8
Current MADS burden (%)	N.A.	4.2	4.7	5.6	5.5
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	9.6	10.5	11.3	12.0
Financial resource ratios					
Endowment market value ($000s)	N.A.	318,947	262,151	272,887	225,009
Cash and investments ($000s)	N.A.	396,885	381,632	356,092	289,029

Stevens Institute of Technology, New Jersey--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--				
	2024	**2023**	**2022**	**2021**	**2020**
Cash and investments to operations (%)	N.A.	82.7	91.8	102.0	81.8
Cash and investments to debt (%)	N.A.	125.1	119.5	119.1	96.9
Cash and investments to pro forma debt (%)	N.A.	124.8	N.A.	N.A.	N.A.

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

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