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New Jersey Educational Facilities Authority
Stevens Institute Of Technology; Private Coll/Univ - General Obligation

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New Jersey Educl Facs Auth, New Jersey		
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Series 1998I and 2007		
Long Term Rating	BBB+/Positive	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB+' long-term rating on New Jersey Educational Facilities Authority's series 1998-I and 2007 bonds issued for Stevens Institute of Technology (SIT or the institute). The outlook is positive.

The rating reflects SIT's solid enterprise profile and strong financial operating performance on a full accrual basis. It also reflects the institute's growing enrollment trends and impressive net tuition revenue growth, particularly during the economic downturn, which underscores its science, engineering, and technology programs' strength. Offsetting these strengths is strong competition for students with declines in freshman matriculation rates, and a planned debt issuance within the outlook period. Per management, SIT will likely issue additional debt of up to $85 million in 2016 to finance construction and renovation of several academic buildings, a parking facility and various deferred maintenance projects, which will support enrollment growth plans. The exact sizing and timing of the debt issue remains uncertain at this time as it depends on resources raised through fundraising and other sources as well as the timing of necessary zoning approvals. We will fully evaluate the impact of additional debt on the rating at the time of issuance.

Positive credit characteristics include:

- Niche programs in science, engineering, and technology at the undergraduate and graduate levels and strong demand characteristics for the rating category;
- Healthy operating performance with consecutive full-accrual operating surpluses posted in recent years and an impressive average annual net tuition revenue growth of 6.8% since fiscal 2009; and
- Adequate financial resource ratios (relative to the debt load) for the rating category, although these ratios are likely to be materially diluted with issuance of additional debt as planned by management.

These strengths are partially offset by our view of:

- Below-average financial resource ratios relative to adjusted operating expenses for the rating category; and
- Substantial debt issuance plans within the outlook period.

SIT is in Hoboken, N.J., across the Hudson River from New York City.

The institute has a solid niche due to its program offerings in science, engineering, and technology. Demand continues to grow and the institute enrolled 5,513 full-time equivalents (FTE) in fall 2015, up by 14.7% since fall 2011. Total debt equaled $70.1 million as of June 30, 2015, which is all fixed-rate. All debt is a general obligation of the institute. The maximum annual debt service burden is, in our view, manageable at 2.5% of fiscal 2015 adjusted operating expenses.

All references to fiscal 2015 financials are based on audited financials.

Outlook

The positive outlook reflects our view of SIT's strong enterprise profile and solid financial operations in recent years. We could consider a higher rating over the outlook period if SIT posts operating margins similar to fiscal 2015 and grows enrollment while maintaining strong student demand metrics. We understand the institute may issue additional debt during the outlook period. We will evaluate the impact of additional debt on the rating when debt amounts are finalized.

In our opinion, a decrease in enrollment, or weaker operating performance could result in an outlook revision to stable. Additional debt that significantly dilutes financial resource ratios to levels inconsistent with the rating category medians could also result in an outlook revision to stable.

Enterprise Profile

Enrollment and demand

SIT's demand profile is characterized by growing enrollment, strong student retention, and excellent student quality. This reflects, in our view, solid demand for the institute's niche program offerings.

Total headcount enrollment increased by 3.8% to 6,359 in fall 2015 from 6,125 in fall 2014. In the past five years, undergraduate enrollment growth has outpaced growth in graduate enrollment. We note graduate enrollment comprised roughly 53% of total headcount in fall 2015. Graduate enrollment increased by 4.5% and 4.6% in fall 2014 and fall 2015, respectively, which reversed decreases in the immediately preceding years, which management indicates were due to a limitation on visas for many international students, while some was strategic. In the near term, the institute aims to shift toward enrolling more full-time graduate students due to its focus on research. In addition, over the next 10 years, management plans to shift the graduate to undergraduate mix by increasing the undergraduate student population. Almost all of the undergraduate population attends school full time (99.3%).

The institute's 2012-2022 strategic plan includes a goal to expand the undergraduate enrollment to 4,000 from the current 2,976 in fall 2015, which we view as a slightly aggressive goal. Roughly 60% and 20% of the institute's fall 2015 undergraduate and graduate students, respectively, are from New Jersey, for an overall 39% in-state student population (graduate and undergraduate). We understand SIT is working toward recruiting more out-of-state students, and diversify its international student mix, and has contracted with Royall & Company to develop marketing strategies and expand market share.

Freshman applications have increased substantially in the past few years; for example, in fall 2006, there were 2,448 freshman applications, and for fall 2015, there were 6,540, a roughly 167% increase. Freshman applications increased by a solid 26% in fall 2015 from fall 2014. The admission profile remains above rating category medians, in our view, with acceptance and matriculation rates of 41.2% and 25.4%, respectively. Student quality, as measured by an average SAT score (math and critical reading) of 1331 is substantially higher than the national average of about 1010) and the institute has a high 94% freshman retention rate. The institute's main cross-admitted institutions include New York University, Rochester Institute of Technology, Rensselaer Polytechnic Institute, and Cornell University in New York; Rutgers University in New Jersey; Worcester Polytechnic Institute and Boston University in Massachusetts; and Carnegie Mellon University and Drexel University in Pennsylvania.

Almost 93% of full-time freshman (including transfers) are projected to receive institutional financial aid for fiscal 2015. The freshman discount rate was what we consider high at 50.9% in fiscal 2013 as SIT increased financial aid packages to successfully recruit high quality students. We understand management has made an effort to ratchet down its freshman discounting; accordingly, the freshman discount rate was 48.3% in fall 2013, 53.5% in fall 2014, and 44.8% in fall 2015. Management worked with a consulting firm to develop a financial aid optimization plan so it can utilize scholarship resources strategically in support of its long-term enrollment goals. We understand SIT's budget assumes an increase in the freshman discount rate to 48% for fall 2016, which is intended to enhance recruitment efforts for high-quality students. Since the institute has such a large graduate student population who receive minimal tuition discounts, the overall tuition discount rate was much lower at 31.1% in fiscal 2015. Moreover, despite higher levels of tuition discounting especially at the undergraduate level, the institute's net tuition revenue growth has averaged 6.8% since fiscal 2009, which we consider healthy, and is projected to grow by roughly 8% in fiscal 2016.

Tuition for undergraduate students increased by 4% to $47,190 for the 2015-2016 academic year, with an all-in cost of $62,340 for tuition, room, board, and fees. There was a 3% increase in the full-time graduate flat tuition rate and a 3.6% increase in the part-time graduate per credit hour rates. Management has modeled a lower 3% tuition increase in its internal financial planning model through 2021. We view the institute's tuition increases in line with peer institutions. The fiscal 2012 three-year cohort student loan default rate was very low, in our view, at 2.2% relative to the national average of 11.8%. As per management, about 19% of its undergraduate students received Pell grants in fiscal 2015.

Management

The institute's president has been in his position since 2011. After assuming his position, the president made some structural changes to the administrative and reporting structure of the institute, including a reorganization of the enrollment division. A new chief financial officer (CFO) and vice president for finance, Dr. Louis J. Mayer, joined on March 16, 2015. The new CFO is a certified public accountant and has held multiple leadership positions in higher education, a foundation, and private industry. Before joining SIT, he served as vice president for financial affairs and treasurer at Saint Joseph's University in Philadelphia. Per management, the current provost who has a long tenure at SIT has announced his retirement at the end of 2016 and a national search will be conducted to fill this position. We understand the remainder of the institute's senior management organizational chart is expected to remain unchanged.

The institute's 2012-2022 strategic plan and key strategic initiatives include a focus on growing the undergraduate student body; recruiting more qualified, diverse students; enhancing interdisciplinary research; growing the size of the research enterprise; and expanding the academic curriculum. Management previously developed a 10-year board-approved liquidity plan, which successfully eliminated SIT's reliance on a line of credit for working capital needs by June 30, 2014, and growing the balance sheet over 10 years. In our view, the institute has made good progress in achieving these goals, particularly related to improving its cash position and eliminating reliance on the line of credit. We also view the institute's continued healthy operating performance in recent years and conservative budgeting practices as positive factors and expect them to continue. Management budgets for full depreciation, which we consider an industry best practice.

Financial Profile

Financial operations

The institute has achieved consecutive years of positive unrestricted operating performance on a full-accrual basis, with the expectation of another strong surplus in fiscal 2016. Management attributes these operating surpluses largely to its implementation of several policies that have enhanced internal controls, conservative budgeting and expense management practices, and positive enrollment trends. The institute ended fiscal 2015 with an unrestricted operating surplus of roughly $11 million following a $9.8 million surplus posted in fiscal 2014. For fiscal 2016, management has budgeted a roughly $14 million full-accrual operating surplus. Factors expected to contribute to this strong surplus include continued solid net tuition revenue growth and growth in other revenue streams, including sponsored research grants. The strong operating surplus in fiscal 2015 occurred despite a 13% increase in total adjusted operating expenses, including institutionally funded financial aid. Expenses increased in areas of instructional spending due to hiring of new faculty, and in institutional financial aid.

Student charges remain the primary revenue source, accounting for 82.7% of fiscal 2015 adjusted operating revenues. This is followed by grants and contracts at 11% and endowment income at a much smaller 2.4%. The institute has been focusing on increasing its grant revenues with the recruitment of new faculty. Total grant revenues were $31.2 million in fiscal 2015 compared with $28.8 million in fiscal 2014, of which the largest source was the Department of Defense The fiscal 2014 research proposal success rate is high at 40%.

Financial resources

The institute's financial resource ratios have improved during the past couple of years aided by its continued full-accrual operating surpluses. Cash and investments of $180.5 million equaled 66.4% of adjusted operating expenses, and 257.6% of debt as of June 30, 2015. We consider expendable resources a more conservative measure of financial resources since a high proportion of assets are restricted. However, Standard & Poor's expendable resources calculation (unrestricted net assets plus temporarily restricted net assets less [net plant, property, and equipment (or PP&E) minus long-term debt]) for the institute is deflated since net PP&E was almost double long-term debt as of June 30, 2015. SIT's expendable resources equaled $102.2 million as of June 30, 2015. This equaled 37.6% of adjusted operating expenses and 145.9% of debt. SIT's planned debt issuance in 2016 is likely to dilute these financial resource ratios from current levels, although the exact debt size is uncertain at this time and would depend on fundraising and other sources of funding.

SIT's endowment has grown by 29.4% to $173.7 million as of June 30, 2015, from $134.2 million as of June 30, 2010. Recent increases in the endowment have been due to strong investment returns and increased fundraising proceeds.

Investment returns for fiscal 2015 were very modest, which mirrored broad market averages. Asset allocations remained fairly consistent with target allocation ranges, with no material changes expected in the near-term. Management reports that Goldman Sachs and Co.'s investment management division has been serving as SIT's outsourced chief investment officer since May 2013. The endowment asset allocation as of Sept. 30, 2015 (unaudited) was 43.3% equities, 30.8% alternatives, 25.5% cash and fixed-income instruments, and 0.4% other assets. About 88% of assets are categorized as Level 1 or 2 according to fair value disclosure in the fiscal 2015 audit, which we view as a proxy for liquidity and consider the most liquid.

In May 2013, the institute's board of trustees approved a gradual reduction in the endowment spending policy rate from historical levels of 5%. In fiscal 2014, it was calculated based on 4.8% of a three-year average of the entire endowment funds, including the Taylor endowment fund. The rate for fiscal 2015 was 4.7%, and budgeted at 4.6% in fiscal 2016. The spending rate is expected to decrease to 4.5% by fiscal 2017 and is likely to remain at that level for the foreseeable future.

Fundraising

The institute has not had a major capital campaign since 2004. In October 2011, it initiated a $30 million mini-campaign focused on scholarships and infrastructure. Management is planning to launch a major fundraising campaign in May 2016, with a preliminary goal of $150 million to $200 million. The campaign will have a broad focus on academic, capital, endowment, and scholarships. The institute hired a vice president for development in 2014 who will spearhead SIT's new comprehensive campaign.

Annual giving trends continued their strong momentum through fiscal 2015, with $28.6 million of gifts and pledges received relative to $22.6 million received in fiscal 2014. The goal for fiscal 2016 is $27 million. The alumni participation rate remains relatively lower than that for certain higher rated peers at 18% in fiscal 2015, albeit improved from 16% in fiscal 2014, and higher than the national average. The goal for fiscal 2016 is set at 19%. We expect further improvement in SIT's alumni participation rates as fundraising efforts have gained momentum in recent years due to management's ongoing efforts in reaching out to alumni donors.

Retirement plans/Contingent liabilities

The institute offers employees a defined-contribution pension plan, which by definition is fully funded. It also provides postretirement health benefits to substantially all of its employees and funds its postretirement benefit costs on a pay-as-you-go basis. We view the liability associated with its postretirement health benefit plan as manageable. The institute has no variable-rate debt, swap contracts, and no privately placed debt.

Stevens Institute of Technology, N.J. Financial Statistics							
	--Fiscal year ended June 30--					**Medians for 'A' rated private colleges and universities**	**Medians for 'BBB' rated private colleges and universities**
	2016*	**2015**	**2014**	**2013**	**2012**	**2014**	**2014**
Enrollment and demand							
Headcount	6,359	6,125	5,784	6,172	6,137	MNR	MNR
Full-time equivalent	5,513	5,275	4,715	4,926	4,807	3,434	3,318
Freshman acceptance rate (%)	41.2	43.8	38.0	40.4	41.7	64.5	70.6

Stevens Institute of Technology, N.J. Financial Statistics (cont.)							
Freshman matriculation rate (%)	25.4	32.3	32.9	37.1	37.3	21.2	24.2
Undergraduates as a % of total enrollment (%)	46.8	47.2	46.5	41.3	39.6	80.9	74.5
Freshman retention (%)	94.0	96.0	96.0	94.0	91.4	86.3	78.0
Graduation rates (five years) (%)	N.A.	N.A.	78.0	77.0	74.9	74.9	59.5
Income statement							
Adjusted operating revenue ($000s)	N.A.	282,648	250,165	232,994	221,506	MNR	MNR
Adjusted operating expense ($000s)	N.A.	271,605	240,323	229,297	219,837	MNR	MNR
Net operating income ($000s)	N.A.	11,043	9,842	3,697	1,669	MNR	MNR
Net operating margin (%)	N.A.	4.07	4.10	1.61	0.76	MNR	MNR
Change in unrestricted net assets ($000s)	N.A.	16,135	13,490	3,704	216	MNR	MNR
Tuition discount (%)	N.A.	31.1	29.2	29.0	28.0	35.4	33.3
Tuition dependence (%)	N.A.	72.3	72.1	70.8	68.8	MNR	MNR
Student dependence (%)	N.A.	82.7	82.8	82.0	79.4	MNR	MNR
Research dependence (%)	N.A.	11.0	11.5	13.1	15.9	MNR	MNR
Endowment and investment income dependence (%)	N.A.	2.4	2.4	1.9	2.0	MNR	MNR
Debt							
Outstanding debt ($000s)	N.A.	70,064	73,261	82,327	90,839	90,765	55,019
Total pro forma debt ($000s)	N.A.	70,064	N.A.	N.A.	N.A.	MNR	MNR
Current debt service burden (%)	N.A.	2.52	2.79	2.93	2.10	4.00	3.40
Current MADS burden (%)	N.A.	2.52	2.85	2.98	3.11	MNR	MNR
Financial resource ratios							
Endowment market value ($000s)	N.A.	173,681	173,055	155,749	141,417	218,129	64,256
Cash and investments ($000s)	N.A.	180,458	170,338	152,472	133,382	MNR	MNR
Unrestricted net assets ($000s)	N.A.	56,108	39,973	26,483	22,779	MNR	MNR
Expendable resources ($000s)	N.A.	102,202	99,625	86,769	30,355	MNR	MNR
Cash and investments to operations (%)	N.A.	66.4	70.9	66.5	60.7	150.6	75.4
Cash and investments to debt (%)	N.A.	257.6	232.5	185.2	146.8	266.7	151.7
Cash and investments to pro forma debt (%)	N.A.	257.6	N.A.	N.A.	N.A.	MNR	MNR
Expendable resources to operations (%)	N.A.	37.6	41.5	37.8	13.8	97.9	54.5

Stevens Institute of Technology, N.J. Financial Statistics (cont.)							
Expendable resources to debt (%)	N.A.	145.9	136.0	105.4	33.4	172.6	88.8
Expendable resources to pro forma debt (%)	N.A.	145.9	N.A.	N.A.	N.A.	MNR	MNR
Average age of plant (years)	N.A.	15.1	15.0	15.9	13.6	13.3	12.8

*Fall 2015 enrollment information. 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 times (net adjusted operating income/adjusted operating expense). Tuition dependence = 100 times (gross tuition revenue/adjusted operating revenue). Current debt service burden = 100 times (current debt service expense/adjusted operating expenses). Current MADS burden = 100 times (maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Criteria And Research

Related Criteria

USPF Criteria: Higher Education, June 19, 2007