

New Issue: Stevens Institute of Technology, NJ

MOODY'S ASSIGNS Baa2 RATING TO STEVENS INSTITUTE OF TECHNOLOGY'S \$69 MILLION OF 2007 SERIES A BONDS; OUTLOOK REMAINS STABLE

PREVIOUSLY ASSIGNED RATINGS AFFIRMED; UNIVERSITY WILL HAVE \$77 MILLION OF RATED DEBT, INCLUDING THE CURRENT OFFERING

New Jersey Educational Facilities Authority
Higher Education
NJ

Moody's Rating

ISSUE	RATING
Revenue Bonds, 2007 Series A	Baa2
Sale Amount \$69,100,000	
Expected Sale Date 06/06/07	
Rating Description Private University Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, May 24, 2007 -- Moody's Investors Service has assigned a Baa2 rating to Stevens Institute of Technology's \$69 million of 2007 Series A bonds issued through the New Jersey Educational Facilities Authority. The outlook for the rating remains stable. The previously assigned ratings, as detailed at the end of this report, have also been affirmed.

LEGAL SECURITY: General obligations; security provided by pledge and first lien on tuition, as well as mortgages on the facilities financed by the respective bond series.

INTEREST RATE DERIVATIVES: None.

USE OF PROCEEDS: Proceeds from the 2007 bonds will be used to fully refund the 2002 Series C and 2004 Series B bonds, and partially refund the 1998 Series I bonds.

STRENGTHS

*Healthy student demand with freshmen selectivity of 52% and yield of 40% in fall 2006, which continues to lead to growing enrollment (4,080 full-time equivalent students in fall 2006) and a rising net tuition per student (\$17,018);

*Relatively good revenue diversity for an institution of this size, with student charges representing 65% of revenue and grants and contracts contributing another 24%;

*Expectations of improved operating performance, given budget projections and board mandate to balance the operating budget in FY2009, with significant progress made toward this goal in FY2008.

CHALLENGES

*Poor operating performance continues, with very weak operating measures in FY2006 (negative 8.6% operating margin and negative operating cash flow for debt service), driven by wide variance from budget in certain revenues and error in budgeting for research revenues;

*Leverage remains relatively high, with expendable financial resources covering outstanding pro-forma debt 0.5 times in FY2006;

*Continued management and cultural shift to orient the institution toward fiscal health as Stevens has not generated cash flow sufficient to cover debt service in five of the last seven years.

MARKET POSITION/COMPETITIVE STRATEGY: DESPITE FISCAL CHALLENGES, STEVENS' STUDENT DEMAND AND MARKET POSITION REMAIN FAVORABLE PROVIDING PRIMARY SOURCE OF SUPPORT FOR RATING

Moody's believes that Stevens' ability to continue strengthening its student market position is the primary credit strength for the organization and supporting the Baa2 rating. With 1,848 full-time equivalent undergraduate students and 2,232 full-time equivalent graduate students in fall 2006, Stevens has successfully grown enrollment by 11% over the last two years. Stevens' location in Hoboken, New Jersey, with access to the greater New York metropolitan area contributes to this demand, as does its array of program offerings. Healthy student demand and growth appears likely to continue into fall 2007 with undergraduate deposits up considerably compared to the prior year. Importantly, Stevens appears to have achieved some of the enrollment growth and the positive trends despite reducing the discount rate in the most recent year.

Graduate enrollment and revenues have also grown considerably, reaching 2,232 full-time equivalent students in 2006. More than half of graduate revenue is generated in off-site programs, including courses offered by contract at corporate sites.

OPERATING PERFORMANCE: DISAPPOINTING RESULTS IN FY2006 WITH BREAK-EVEN OPERATIONS FORECAST FOR FY2009

Moody's believes that Stevens' management and board are committed to reaching break-even operating performance by FY2009, although results in FY2006 were very disappointing. Despite expecting operating performance to worsen only moderately in FY2006 compared to FY2005 as recently as August of 2006 (after the fiscal year-end), due to several large variances to budget, Stevens generated a very weak negative 8.6% operating margin in FY2006, resulting in negative cash flow available for debt service as calculated by Moody's. The unfavorable performance was driven by a number of factors, including a large shortfall in miscellaneous revenues, and an error in budgeting for research grants. Combined, these issues led to a reduction in operating income of over \$8.5 million as calculated by Moody's. Partially offsetting the revenue gap, the Institute succeeded in significantly reducing the growth of its materials and service expenses compared to prior years, and had budgeted for interest expense for a project that was somewhat delayed, allowing those interest costs to be capitalized and not detracting from operating performance in the most recent year.

These budgeting miscues demonstrate the continued work that needs to be accomplished to improve the Institute's financial management practices and systems and the overall operations of the organization. We continue to believe that progress has been made since FY2005 and the recent changes should further improve operating performance. Namely, Stevens recently reorganized its senior management team. The President will increasingly focus on fundraising, partnerships and enterprise development, while a newly appointed Provost will focus on day-to-day operations of the Institute and on the budget.

A demonstration of the potential effectiveness of the new budget structure was seen in FY2007, with a mid-year expense reduction of over \$6 million (over 6% of operating expenses as calculated by Moody's and excluding research expenses) in order to react to prior year performance and the realization that certain FY2007 budget items were not likely to be achieved. As of the most recent interim reports by management, the Institute expects to achieve a surplus in the range of \$1.5 to 2 million before depreciation or nearly \$6 million of operating cash flow available for debt service in FY2007. Moody's views this projected performance as still weak, but a positive step toward achieving fiscal balance. Budget goals for the Institute have been set for FY2008 and FY2009 that reflect incremental steps toward achieving fully balanced operating performance in FY2009, including accounting for depreciation. Improvements are expected to be driven by continuing enrollment and tuition revenue growth, along with diligent expense management.

BALANCE SHEET POSITION: BALANCE SHEET REMAINS LEVERAGED WITH POSITIVE INVESTMENT RETURNS OFFSET BY OPERATING DEFICITS

Stevens' balance sheet remains leveraged as debt and financial resources have remained relatively flat over the last two years. Expendable financial resources (which include a negative impact from a change in accounting principle of nearly \$5 million) of \$45 million in FY2006 cover pro-forma debt by 0.5 times and cover operations 0.3 times. Despite an investment return of 11% in FY2006, financial resources have not grown as operating deficits and capital spending have eaten into these gains. Stevens' does not have any near-term plans for additional borrowing.

The current refinancing will be structured to provide some cash flow relief over the first five years (FY2008 through FY2012), but may also achieve positive savings for the Institute overall (based on current projections). Although the refinancing will extend the average life of the Institute's debt, we view the additional flexibility afforded management over the coming years as a positive. Stevens' expects to utilize the cash flow savings to fund strategic initiatives including one-time expenses associated with faculty recruitment plans.

Outlook

The stable outlook is based on Moody's expectation that Stevens will achieve forecast operating performance targets, including improved operating cash flow in FY2007 and FY2008, reaching break even operating performance in FY2009, while sustaining enrollment trends and maintaining current balance sheet leverage ratios. Any significant variance from these expectations could place pressure on the rating and outlook.

WHAT COULD CHANGE THE RATING - UP

Multi-year trend of operating balance; strong financial resource growth relative to growth in budget and leverage

WHAT COULD CHANGE THE RATING - DOWN

Failure to achieve operating targets; any significant additional borrowing

KEY DATA AND RATIOS (Fiscal year 2006 financial data; fall 2006 enrollment data):

Total Enrollment: 4,080 full-time equivalent students

Total Direct Debt: \$90.7 million

Expendable Resources to Direct Debt: 0.49x

Expendable Resources to Operations: 0.34x

Three-Year Average Operating Margin: -3.9%

Operating Cash Flow Margin: -1.0%

Reliance on Tuition and Auxiliary Revenues: 64.6%

RATED DEBT:

1998 Series I, 2002 Series C, 2004 Series B and 2007 Series A: Baa2 (the 2002 Series C and 2004 Series B bonds are expected to be fully refunded with the current financing)

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