

## New Jersey Educational Facilities Authority Stevens Institute of Technology

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### Credit Profile

US\$69.1 mil rev rfdg bnds (Stevens Inst Of Tech) ser 2007 dtd 07/01/2007 due 07/01/2034

<b>Long Term Rating</b>	BBB+/Stable	New
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### New Jersey Educl Facs Auth, New Jersey

Stevens Inst Of Tech, New Jersey

New Jersey Ed Fac Auth (Stevens Inst of Tech)

<b>Long Term Rating</b>	BBB+/Stable	Affirmed
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### Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' rating to New Jersey Educational Facilities Authority's revenue bonds, series 2007, issued for Stevens Institute of Technology. At the same time, Standard & Poor's affirmed its 'BBB+' rating on the authority's preexisting revenue bonds, issued for Stevens.

The 'BBB+' rating reflects Stevens':

- History of negative operating performance over the past decade,
- Sharp increase in debt levels in the 2002-2004 period, and
- Long-term trend of declining liquidity with fiscal 2006 unrestricted resources equal to 19% of operating expenses and 35% of debt.

Positive credit characteristics supporting the rating include Stevens':

- Niche in administering technologically and professionally oriented degree programs at the undergraduate and graduate levels;
- Growing enrollment and improved admissions flexibility, measured by a competitive 50% acceptance rate and a good 41% matriculation rate;

- Good endowment with a market value of \$140 million as of June 30, 2006, most of which is restricted; and
- Recent changes and financial management, including better reporting and controls, which should lead to strengthened financial performance over the next several years.

Standard & Poor's lowered its rating on Stevens' debt to 'BBB+' from 'A-' in May 2004 and to 'A-' from 'A' in April 2002.

### ***Outlook***

The stable outlook reflects the expected continuation of positive demand trends, the achievement of balanced financial performance by fiscal 2009, and the maintenance of liquidity. An inability to make progress toward balanced financial operations would be viewed negatively and could lead to a rating downgrade.

### ***Operating Performance***

Stevens began to incur operating losses on an annual basis in the mid-1990s. With a new vice president of finance's arrival in 2005, however, Stevens developed a plan to return to balanced operations before depreciation. In fiscal 2005, the institute came close to achieving balanced operations on a budgetary basis, excluding a \$4.8 million charge for depreciation. For fiscal 2006, operations weakened and Stevens incurred an operating loss of \$4.6 million, before a depreciation charge of \$4.6 million for a total operating loss of \$9.2 million. For fiscal 2007, Stevens is projecting a surplus of about \$1.6 million before depreciation, but still a GAAP loss of \$4.7 million. The budget for 2008 shows this GAAP deficit shrinking to \$2.6 million, with balanced operations projected for fiscal 2009. Standard & Poor's believes that much improvement has been made in Stevens' finance administration area, which provides a better path to strengthen its weak operating performance. Stevens made needed cuts to the operating budget of \$6.1 million in January 2007 that should help get it to balanced operations by fiscal 2009.

### ***Revenues***

Operations are fairly diverse with no single funding source providing more than 60% of budgetary support. The portion of revenues coming from research contracts and grants has increased with research totaling \$27 million in fiscal 2006, up from \$10 million in 1997. The overall discount rate is low at 26% because graduate students do not receive as much financial assistance as undergraduates. The undergraduate tuition discount is higher at 39%, and the freshman tuition discount rate is at 46%. Over the past five years, Stevens has raised tuition at an above-average rate to close the gap between Stevens' tuition and that of its competitors to reflect the institute's growing admissions selectivity. Undergraduate tuition and fees of \$35,070 for the academic year 2007-2008 ranks in the middle of its private competitors. The institute's biggest public competitor is Rutgers University.

### ***Liquidity***

Recent operating pressures and increases in debt have caused Stevens' balance sheet resources to decline to levels commensurate with the lower-to-middle 'BBB' category. Although cash and investments, totaling \$141 million at fiscal year-end 2006, have been flat when compared with the high point of fiscal 2001, they have been growing in recent years and are up from \$113 million in fiscal 2003. This

amount represents an adequate 95% of operating expenses and 176% of debt. Unrestricted resources, however, are significantly lower, at fiscal year-end 2006, totaling just 19% of operating expenses and 35% of debt. This measure is sharply lower because Stevens' \$140 million endowment is mostly restricted. Although the endowment is lower than Stevens' peers, it is adequate for an institution of its size and financial resources. The fund is conservatively invested in a mix of equities (44%), alternative investments (30%), private equity (13%), and fixed-income instruments (9%), with the remainder (4%) in cash. The university employs a total-return concept with respect to its endowment fund, spending an amount equal to 5.2% of a trailing three-year fund-market-value average on an annual basis. This rate is scheduled to drop by 10 basis points per year until the rate reaches 5%. Stevens completed its last major capital campaign ahead of schedule in fiscal 2004, having surpassed its original goal of \$102 million by \$10 million. Planning is currently underway for the next capital campaign.

Stevens' bonds total \$82 million with another \$11 million of bank lines outstanding. Stevens plans to advance refund its outstanding bonds, lowering its annual debt service by more than \$1.5 million annually through 2013. Maximum annual debt service will be about 4.4% of operations.

### ***Enrollment/Demand***

Stevens is located just across the Hudson River from New York City in Hoboken, N.J. Headcount enrollment has increased more than 25% since fall 1999 to 5,087 in fall 2006. Stevens' 3,239 graduate students, which are its largest enrollment cohort, represent more than 60% of the total enrollment. A sizable portion of the graduate students is enrolled on a part-time basis. Graduate enrollment has increased at a quicker pace than undergraduate enrollment. Freshman applications, which declined slightly in fall 2002 and 2003, have rebounded significantly since then, and Stevens has been successful in growing the undergraduate population. Stevens hopes that its undergraduate population will total 2,200 students by fall 2009, up from 1,595 in fall 2000 and 1,848 in fall 2006. This goal is being accomplished by increasing the size of the entering class to 525-550 students from the levels of less than 450 prior to fall 2003.

Undergraduate admissions flexibility remains good, with about 50% of the applicants typically gaining acceptance. The improvement in the undergraduate matriculation rate to 41% in fall 2006 from 32% in fall 1999 is indicative of management's student-life improvements. The retention rate from freshman year to sophomore year is 90%.

### ***Contacts***

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