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New Jersey Institute Of Technology Essex County Improvement Authority CHF-Newark, L.L.C.; Public Coll/Univ - Unlimited Student Fees

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Credit Highlights

- S&P Global Ratings revised its outlook to stable from negative and affirmed its 'A' long-term rating, and underlying rating where applicable, on approximately $400 million of existing bonds (various series) and other minor forms of debt issued by and for New Jersey Institute of Technology (NJIT) and for the Essex County Improvement Authority, N.J. for CHF-Newark, LLC, on behalf of NJIT.
- The revised stable outlook reflects a firmer enrollment trend and expectations of improved financial operating performance.

Security

All series of bonds issued by NJIT are secured by a general obligation pledge of NJIT. The $91.0 million series 2021 bonds issued by ECIA are secured by an obligation to pay rent under the facility lease, which we consider equivalent to a general obligation pledge. The project (CHF-Newark, LLC--New Jersey Institute of Technology Project), financed with the series 2021 bonds for a student housing facility and a parking garage, utilized a triple net lease that is not subject to abatement or appropriation risk and the project was constructed on land leased to the borrower by the university. Lease payments are made from all available funds. NJIT's total pro forma debt, inclusive of the CHF-Newark LLC series 2021 bonds, a $10.4 million series 2022 direct-placement issue, and a small amount of notes, leases, and prior direct-placement debt, is approximately $409.8 million.

Some obligations secured by lease payments of not-for-profit U.S. public finance entities such as universities, which are backed by the university's full-faith-and-credit pledge, are generally rated on par with its issuer credit rating. Due to the credit strength of NJIT and protections afforded by it in the master lease agreement, we rate these student housing and parking garage revenue bonds on par with the university's rating.

The rating and outlook reflect NJIT's rising enrollment trend, diverse academic programs, and strong research capabilities, including being only one of three Carnegie Classified R1 research universities in New Jersey, with consistently strong student and faculty quality and retention rates. These credit strengths are offset by recurring financial operating deficits, albeit improved in fiscal 2021, and modest available resources with a moderate-to-slightly high pro forma debt burden of 5.2%. We understand further financial improvement is anticipated for fiscal 2022 as revenue exceeded budget and stimulus funds provided some fiscal relief.

Credit overview

We assessed NJIT's enterprise profile as very strong, reflecting its favorable enrollment trend, high student quality, and solid retention, as well as adequate management and governance. We have assessed the institute's financial profile as strong, reflecting its relatively diverse revenue streams, recently improved state appropriation, and modest available resources offset by recurring deficits on a full-accrual basis and a moderate-to-slightly high debt burden. When we combine the enterprise and financial profiles, this leads to an indicative stand-alone credit rating of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'A' rating better reflects NJIT's weaker available resources to operations and debt compared with medians and peers, which adds credit risk.

The rating also reflects our opinion of NJIT's:

- Comprehensive role and growing reputation among New Jersey public universities, with well-regarded programs in engineering, science, and technology, coupled with strong (R-1) research capabilities;
- Growing full-time equivalent (FTE) enrollment, with a 2.4% increase in FTE students in fall 2021, to 10,468 from 10,220 in fall 2020, and expectations of further growth in fall 2022 and 2023; and
- High student quality, with mean SAT and ACT scores of 1,307 and 30, respectively, for the fall 2021 freshman class, along with a very favorable 88% retention rate for the freshman to sophomore year.

In our view, the preceding factors are diminished somewhat by NJIT's:

- Relatively modest available resource ratios compared with rating category medians--these ratios, however, are consistent with those of other New Jersey public universities;
- Weakened selectivity; and
- Moderate-to-slightly high debt burden, based on pro forma maximum annual debt service (MADS) burden that accounts for 5.2% of fiscal 2021 adjusted operating expenses.

NJIT is a public research university located in Newark, New Jersey. Founded in 1881, the institute opened as the Newark Technical School and provided training for technical careers. The university hosts VentureLink, formerly the Enterprise Development Center, an on-campus business incubator that has had a role in developing a multitude of startups. NJIT also offers more than 125 undergraduate and graduate degree programs in six specialized schools, including:

- The Newark College of Engineering,

- The Hillier College of Architecture and Design,
- The College of Science and Liberal Arts,
- The Martin Tuchman School of Management,
- The Ying Wu College of Computing, and
- The Albert Dorman Honors College.

We currently rate the State of New Jersey 'A-', with a stable outlook. While our rating on NJIT is not capped at the state rating, given the current low level of support (average of around 21% for the past three years of total adjusted revenue), fluctuations in state appropriation levels and large underfunded state pensions and other postemployment benefits (OPEB) are long-term credit risks for New Jersey public colleges and universities, including NJIT.

Environmental, social, and governance

In our view, NJIT, like other higher-education entities, faced elevated health and safety social risks during the pandemic; however, we now view these risks as somewhat abating for the higher-education sector. Given the pandemic's significant effects on modes of instruction and enrollment trends over the past two-and-a-half years, we believe a future public health event of similar size and scope could again affect demand and finances. We view the university's environmental and governance risks as neutral factors in our credit rating analysis.

Outlook

The stable outlook reflects our view that NJIT's enrollment trend is likely to continue to be favorable, given its predominant course offerings in the STEM (science, technology, engineering, and math) disciplines, while its finances should slowly improve with more favorable state appropriations and other forms of financial support anticipated as more disciplined financial budgeting and expense control is in progress. In addition, we are not anticipating any significant additional debt.

Downside scenario

We could lower the rating if enrollment declines significantly, available resource ratios at NJIT decrease to levels no longer commensurate with median ratios for the current rating, or NJIT were to issue additional debt without commensurate resource growth. We could also take a negative rating action if housing occupancy levels on campus experience sharp declines or if there is any interruption in debt service payments to the student housing project, although this is not expected. Additionally, we could take a negative rating action if budget improvement fails to be realized.

Upside scenario

We could implement a positive rating action if NJIT's enrollment significantly increases such that its financial performance becomes positive on a full-accrual basis and can be sustained, or if available resources increase substantially relative to operations and debt, and enrollment is stable and financial performance shows modest improvement.

Credit Opinion

Enterprise Profile

Market position and demand

NJIT has a demonstrated history of growing FTE enrollment, in part, we believe, because its urban campus has become increasingly attractive to significant investment over the past decade or more. FTE enrollment has grown by approximately 7.4% since fall 2015. Fall 2021 FTE enrollment increased by 2.4% and remains in line with pre-pandemic levels. The university had a trend of year-over-year FTE enrollment growth for 15 consecutive years until fall 2020, when it suffered a slight dip due to the impact of the COVID-19 pandemic. The majority of NJIT's students, approximately 82%, are from New Jersey; therefore, the state's GDP per capita anchors our assessment of NJIT's economic fundamentals.

In fall 2021, undergraduate FTE enrollment was stable, with 0.6% growth, while graduate FTE enrollment saw a 10.4% increase after a five-year declining trend. While enrollment in doctoral programs remains strong, there have been previous declines in graduate-level master's and certificate programs, which management partly attributes to fewer international matriculants. Management plans to strengthen and grow its online presence to help stabilize graduate enrollment. NJIT has approximately 90% of its students in a STEM-related field. Popular majors include engineering and computing. The university has also recently added new programmatic offerings in data science, forensic science, and cyber security. NJIT currently has the highest Carnegie research classification. Undergraduate freshmen applications totaled 11,578 in fall 2021, a 12.4% increase from fall 2020. The university became test-optional during the pandemic and continues to be so for the time being. NJIT has a satisfactory six-year graduation rate of 68%, with a solid retention of 88%.

For the academic year 2021-2022, in-state undergraduate tuition was $14,790, representing a 2.4% increase compared with the 2020-2021 rate. The tuition discount rate was 35.2% in fiscal 2021, which remained relatively stable. We view NJIT's tuition rates as comparable with rates charged at other peer institutions. In terms of fundraising, NJIT raised approximately $19.2 million in cash and pledges in fiscal 2021, $13.6 million in fiscal 2020, and $16.9 million in fiscal 2019. NJIT completed its comprehensive NEXT campaign in June 2018 and raised $201 million. The institute and foundation launched the campaign in 2007 with a focus on increasing the endowment, upgrading facilities, and funding additional educational programs.

NJIT Student Housing Project--CHF-Newark, LLC

Bond proceeds from the series 2021 issues financed a student housing facility and parking garage (CHF-Newark, LLC--New Jersey Institute of Technology Project). The Warren Street development project was developed and financed through a public-private partnership that contains an absolute master lease. The project consisted of a 176-unit, 548-bed apartment-style student housing facility with an associated parking garage of approximately 70 spaces, as well as retail space. Under the structure, NJIT ground-leased the land at Warren Street to CHF-Newark, who then funded the development of the residence hall with the bond proceeds. The bonds will be secured by lease payments made by NJIT from the university's general revenues pursuant to the facility master lease. At the end of the

50-year term of the ground lease, ownership of the residential hall will transfer to the university.

The project aligns with the strategic plan of the university, which is looking to become more of a residential campus. The new student housing facility, known as Maple Hall, opened this fall, and on a recent campus tour we went through the new facility as well as a number of other recent university buildings that were new or significantly renovated. We were impressed with the thoughtfulness of the design of the buildings and their overall contribution to making the campus more attractive to a wide range of existing and prospective students. There is no debt service reserve fund requirement, and NJIT has control over determining room rates.

CHF-Newark, as the owner of the residence hall, entered into contracts related to the design, development, and construction with RISE, a professional management company, for the project. RISE is managing the day-to-day operation of the facility, including repair, cleaning, and occupant relations. RISE is also overseeing the leasing of the approximately 2,000-square-foot commercial retail space within the facility. We understand the project came in on time and at a cost of $92.8 million, slightly under the estimated development cost of $93.2 million. The university maintains the casualty and liability insurance on the project. Annual residential income supports the lease agreement, and with current occupancy rate projections, net revenue is projected to be earned by NJIT. The new facility is almost fully occupied. It is our understanding that there were no debt service coverage covenants associated with this project.

Management and governance

NJIT is governed by a board of 14 trustees publicly appointed by the governor with the advice and consent of the senate. All publicly appointed trustees are voting members. The governor and Newark's mayor also serve as ex officio members of the board of trustees. Trustees serve four-year terms. The board has administrative and financial oversight over the activities of the institute. It has remained stable, with only normal rotational changes.

The institute's long-serving president, Joel Bloom, retired on June 30, 2022, and effective July 1, 2022, Dr. Teik Lim became the university's new president. Dr. Lim comes from the University of Texas at Arlington and has demonstrated drive and passion for his new assignment and clear-headedness about what the university needs to do to continue to excel. The provost and senior executive vice president had similarly served since January 2013 and retired at the same time as the former president. Dr. Atam Dhawan is currently serving as interim provost and senior vice provost for research. The university also has a relatively new senior vice president for finance and chief financial officer, Ms. Catherine Brennan, who joined NJIT in September 2021 and was most recently deputy treasurer for the State of New Jersey. Despite these transitions, the senior leadership and finance teams maintain strong depth, and we expect the university to continue achieving its core strategic goals and objectives.

NJIT's current strategic plan, "Building a Strong Foundation--NJIT 2025," includes key performance indicators and goals that include enhancing curriculum, supporting the student experience, increasing diversity, and improving yield. Management also has goals of establishing a virtual global campus and increasing instructional capacity.

State appropriations

New Jersey public colleges and universities receive two types of appropriations: operating appropriations and employees' fringe benefits paid by the state. In fiscal 2021, NJIT had total appropriations of $109.4 million, an increase from $91.5 million in fiscal 2020. The state appropriation increase in fiscal 2021 was due to an equalization adjustment to the state's fringe benefit rate, a return of the direct appropriations to a pre-COVID-19 level, and an increase in OPEB funding. The decrease in fiscal 2020 was primarily due to a reduction in operating funding, attributable to COVID-19, along with a decrease in OPEB and the fringe benefit equalization adjustment. Management indicates the fiscal 2022 total appropriation is estimated at $110.6 million and the fiscal 2023 appropriation is budgeted at $124.4 million.

Financial performance

NJIT's financial performance has been characterized by full-accrual deficits, which grew larger in fiscal 2020 due to COVID-19-related costs, state budgetary pressures, and reduced enrollment, followed by a deficit of 1.96% in fiscal 2021, which is in line with fiscal years 2019 and 2018.

In fiscal 2021, the university had a net adjusted deficit of $10.2 million, or a negative 2.0% margin. As a response to COVID-19, management froze salaries and implemented furloughs. In fiscal 2020, NJIT posted a fairly large $35 million adjusted deficit (-7%), partly due to reduced appropriations and COVID-19-related expenses. For fiscal 2022, management is anticipating a $12.7 million surplus on a budgetary basis, and for fiscal 2023 it budgeted a balanced budget using $12.7 million of carryover funds from fiscal 2022. The institute's revenue sources are diverse, in our view, compared with those of other peer public institutions. In fiscal 2021, NJIT's adjusted operating revenue sources were relatively stable, with student revenues at 42.8%; research, grants, and contracts at 28.1%; state appropriations at 21.6%; and other sources at 7.5%.

Available resources

NJIT's adjusted unrestricted net assets (UNA) were $140 million at fiscal year-end 2021, a 33% increase from fiscal 2020. The UNA-to-operation-expenses ratio increased to 27% in fiscal 2021 after a modest decline to 21% in fiscal 2020. Adjusted UNA relative to pro forma debt increased to 34.9% by fiscal year-end 2021 from an UNA to debt ratio of 32.4% at fiscal year-end 2020. The available resources of NJIT remain modest compared with median values for public colleges and universities, but are on par with those of other New Jersey state schools. At June 30, 2021, cash and investments--which we view as a less conservative measure of balance-sheet strength because restricted funds are included--equaled $326.6 million, or 63.1% of adjusted operating expenses and 79.7% of pro forma debt. As of June 30, 2021, the endowment of the university had a market value of approximately $171.6 million. In fiscal 2021, the endowment spend for the university was 4.6%. Most of the endowment is held at the foundation, and the spending policy is 5.0% of a three-year moving average, which is sustainable, in our view. In May 2022, NJII (New Jersey Innovation Institute), a wholly owned subsidiary of NJIT, sold a subsidiary launched at NJII, Biocentriq, and realized a one-time net cash gain of $67.7 million.

Debt and contingent liabilities

Pro forma debt totals approximately $409.8 million, and all debt of the university remains fixed-rate.

NJIT has privately placed debt of $38.8 million. The university entered into a forward interest-rate lock agreement to allow NJIT to do a forward delivery refunding of the series 2010H bonds. While this agreement was executed in 2018, the university officially closed this $28.4 million refunding with TD Bank in May 2020. The loans have terms with acceleration provisions, along with a 30-day cure period. While we view the loan as a contingent liability, the university maintains ample liquidity to cover the private placement and we do not view the privately placed debt as a significant liquidity risk. Similarly, in April 2022, NJIT entered into a $10.4 million series 2022 direct-placement obligation to refund a portion of its 2015 series A step coupon bonds. In our opinion, NJIT's pro forma MADS remains moderate-to-slightly high, at 5.2% of adjusted operating expenses in fiscal 2021. However, we note that a high debt burden is characteristic of many New Jersey state colleges and universities, due primarily to the lack of historical state capital support.

NJIT participates in six retirement plans covering its employees. Three of these pension plans are cost-sharing, multiple-employer, defined-benefit pension plans administered by the state of New Jersey, and three are defined-contribution pension plans, which are fully funded by definition. Total pension expense in audited fiscal 2021 is $170,000 and the net pension liability on the balance sheet is $135.4 million. We understand that the State Health Benefit State Retired Employees Plan meets the definition of a special funding situation, and as a result, the OPEB liability is not allocated to the university; however, the OPEB expenses are allocated, although offset by the revenue related to the support allocated by the state of New Jersey. We understand these state pension liabilities, although not legally required to be funded by the state, have historically been so, and we expect this to continue. For now, these liabilities do not pose a risk to NJIT and other New Jersey public universities, though they do remain a long-term credit risk for New Jersey public colleges and universities if broader pension reform occurs, resulting in the state shifting all or a portion of these liabilities to state entities such as NJIT; however, there are no indications that this is likely to occur any time soon.

New Jersey Institute of Technology, New Jersey--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges & universities
	2022	2021	2020	2019	2018	2021
Enrollment and demand						
Headcount	11,901	11,652	11,859	11,560	11,551	17,431
Full-time equivalent	10,468	10,220	10,437	10,149	9,998	14,060
Freshman acceptance rate (%)	69.1	66.0	66.0	63.7	61.4	78.2
Freshman matriculation rate (%)	17.7	18.3	23.0	24.9	25.0	24.6
Undergraduates as a % of total enrollment (%)	77.2	78.0	76.3	74.6	74.0	84.9
Freshman retention (%)	88.0	88.0	88.0	88.0	88.0	79.3
Graduation rates (six years) (%)	68.0	69.0	67.0	65.0	64.0	56.0
Income statement						
Adjusted operating revenue ($000s)	N.A.	507,652	463,858	484,043	479,027	MNR
Adjusted operating expense ($000s)	N.A.	517,808	498,946	496,616	491,634	MNR
Net adjusted operating income ($000s)	N.A.	(10,156)	(35,088)	(12,573)	(12,607)	MNR
Net adjusted operating margin (%)	N.A.	(1.96)	(7.03)	(2.53)	(2.56)	2.70
Estimated operating gain/loss before depreciation ($000s)	N.A.	27,563	1,434	22,593	18,466	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	34,832	(17,186)	(6,995)	(1,964)	MNR
State operating appropriations ($000s)	N.A.	109,409	91,560	109,440	124,010	MNR
State appropriations to revenue (%)	N.A.	21.6	19.7	22.6	25.9	21.3
Student dependence (%)	N.A.	42.8	47.9	45.0	43.5	48.3

New Jersey Institute of Technology, New Jersey--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'A' rated public colleges & universities
	2022	**2021**	**2020**	**2019**	**2018**	**2021**
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	28.1	29.1	28.2	27.4	9.2
Endowment and investment income dependence (%)	N.A.	4.9	1.1	1.3	1.1	0.7
Debt						
Outstanding debt ($000s)	N.A.	414,486	331,565	331,188	335,909	233,330
Proposed debt ($000s)	N.A.	10,420	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	409,826	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	26,752	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.22	4.01	4.04	4.09	MNR
Current MADS burden (%)	N.A.	4.68	4.85	4.94	5.11	4.30
Pro forma MADS burden (%)	N.A.	5.17	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	171,617	133,395	127,212	117,875	152,236
Related foundation market value ($000s)	N.A.	170,029	N.A.	N.A.	N.A.	186,488
Cash and investments ($000s)	N.A.	326,592	239,515	253,659	238,067	MNR
UNA ($000s)	N.A.	(8,729)	(43,561)	(26,375)	(19,380)	MNR
Adjusted UNA ($000s)	N.A.	140,019	105,017	118,453	118,573	MNR
Cash and investments to operations (%)	N.A.	63.1	48.0	51.1	48.4	52.7
Cash and investments to debt (%)	N.A.	78.8	72.2	76.6	70.9	114.7
Cash and investments to pro forma debt (%)	N.A.	79.7	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	27.0	21.0	23.9	24.1	39.8
Adjusted UNA plus debt service reserve to debt (%)	N.A.	34.5	32.4	36.2	35.7	86.8
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	34.9	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.1	12.6	12.1	12.8	15.8
OPEB liability to total liabilities (%)	N.A.	0.0	0.0	0.0	0.0	MNR

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. Adjusted UNA = unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

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

2, 2022

Ratings Detail (As Of October 14, 2022)		
New Jersey Inst of Tech GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
New Jersey Inst of Tech PCU_USF		
Long Term Rating	A/Stable	Outlook Revised
New Jersey Inst of Tech PCU_USF (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
New Jersey Inst of Tech PCU_USF (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised

Many issues are enhanced by bond insurance.