2021

2021 S&P NJEFA ratings - Part 2

Kean University

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Abstract

2021 S&P NJEFA ratings - Part 2 (Bond Rating A-/Outlook "Stable")

Keywords

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Ratings

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New Jersey Educational Facilities Authority
Kean University; Public Coll/Univ - Unlimited Student Fees

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Table Of Contents

New Jersey Educational Facilities Authority Kean University; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
New Jersey Educl Facs Auth, New Jersey		
Kean Univ, New Jersey		
New Jersey Educl Facs Auth (Kean Univ) rev rfdg bnds		
Long Term Rating	A-/Stable	Outlook Revised
New Jersey Educl Facs Auth (Kean Univ) PCU_USF		
Long Term Rating	A-/Stable	Outlook Revised
New Jersey Educl Facs Auth (Kean Univ) PCU_USF (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth (Kean Univ) (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Outlook Revised

Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'A-' long-term rating on New Jersey Educational Facilities Authority's series 2015H, 2017C, and 2017D revenue bonds, issued for Kean University.

The revision to stable reflects the university's continued strong operating margins and an enrollment profile that has remained fairly consistent for the rating, with no significant pressure, even in light of the COVID-19 pandemic. While state aid in fiscal 2020 was reduced by 50% in March, April, May, and June of 2020 (approximately $5.3 million), federal and state stimulus from the Coronavirus Aid, Relief, and Economic Security (CARES) Act was able to offset some of these losses. The state has since restored funding, with operating and outcome-based funding totaling $33.1 million for fiscal 2021, up from $27.8 million in fiscal 2020. Available resources remained comparable to previous years and we do not anticipate any drastic weakening, given that the university has no plans for any new additional debt.

Kean had approximately $302.6 million of debt outstanding, including capital leases, at the end of fiscal 2020. Similar to many other New Jersey public universities, the revenue bonds are a general obligation of the university, payable from any legally available funds. The university defines its legally available funds as all funds, including state appropriations, not designated for a specific purpose. Although state appropriations are not specifically pledged to bondholders, they are part of the pool of resources available to pay debt service on the bonds.

For fall 2020, the university offered a hybrid form of instruction, although the first few weeks and the last few weeks of the semester were fully remote. However, students were still allowed in the dorms during that time, so the university was still able to generate some auxiliary revenue, although the university did reduce occupancy in the dorms to one student per bedroom. The same approach was taken for the spring semester. Occupancy for fall 2020 was around 40%, compared with 92% in fall 2019. Auxiliary revenue typically accounts for 6% of total adjusted operating revenue, which is not very significant, in our opinion. International full-time equivalent (FTE) students in fall 2020 did decline slightly, to 2% of total FTE, but it was only 4% of total FTE in fall 2019, so the impact on total revenue was somewhat limited.

The university received $33.8 million of total CARES Act funding. For fiscal 2020, the university recognized approximately $10.2 million, with $4.8 million given directly to students. In addition, Kean was able to find savings of around $7 million by way of implementing a voluntary separation program, along with organic reductions as result of limited travel. The university also furloughed some employees, although layoffs were limited. These savings, along with the CARES funding, were able to offset the refunds issued for housing and dining as a result of the closure of the campus in March 2020. With significant tuition revenue growth, stimulus funds, and careful expense management, Kean was able to post a very solid 12% margin in fiscal 2020. We believe operating results for fiscal 2021 will be equally healthy, especially with the booking of the remaining $23.6 million of CARES funding and an additional $22.9 million from Coronavirus Response and Relief Supplemental Appropriations (CRRSAA) Act funding, of which $16.1 million can be used for institutional purposes to help offset all the costs related to the pandemic.

Credit overview

We assessed Kean's enterprise profile as strong, characterized by healthy application growth and relatively stable enrollment, although fall 2020 saw some softening as a result of the pandemic. Selectivity and matriculation remained weak, but not weaker than historic trends. We assessed Kean's financial profile as strong, with a history of solid operating surpluses on a full-accrual basis, offset by weak available resource ratios, especially relative to debt when compared with medians, but comparable with other New Jersey public universities that receive minimal state capital support. We believe these combined credit factors lead to an indicative standalone credit profile 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 on the college's bonds better reflect its weaker demand profile, including lower selectivity and matriculation and lower retention and graduation rates compared with other 'A' rated public university peers in New Jersey.

We currently rate New Jersey 'BBB+' with a stable outlook. While our rating on Kean is not capped at the state rating, given the current low level of support (average of around 22% for the past five years of total adjusted revenue), uncertainty around future state appropriation levels and severely underfunded state pensions and other postemployment benefits (OPEB) is a long-term credit risk for New Jersey public colleges and universities, including Kean.

The rating reflects our opinion of the university's following strengths:

- A history of strong full-accrual operating surpluses that remains solid through fiscal 2020;
- Relatively stable enrollment and demand metrics, with some softening in fall 2020 as a result of the pandemic but no significant declines in demand; and
- Use of dedicated fees to support debt service on outstanding bonds that can be increased, if necessary.

The rating reflects our opinion of the university's following weaknesses:

- High maximum annual debt service (MADS) debt burden of 8.32% relative to medians, although comparable with many New Jersey state schools;

- Available resource ratios, especially relative to debt, that, while improved, still remain weak for the rating largely due to a lack of state capital funding that led to use of internal funds and bond issuance to maintain capital needs; and
- Risk of New Jersey shifting all or a portion of the severely underfunded state pension and OPEB liabilities to public universities, such as Kean, due to the ongoing state budgetary challenges, although the liabilities have historically been covered by the state.

Kean University is a coeducational regional university located in Union, N.J., less than one hour from New York City. It is the fourth-largest public university among the 12 in New Jersey, and it offers a variety of undergraduate, masters, and doctoral degrees. In addition to the Union campus, Kean also has a satellite campus in Ocean County, N.J., called Kean Ocean, which mainly serves transfer students along with a campus in Wenzhou, China, that serves local Chinese students while giving them an opportunity to come study in the U.S. Kean also opened a satellite campus called Kean Skylands, which operates in the Oak Ridge section of Jefferson, N.J. The first cohort is enrolled in fall 2019.

Environment, social, and governance (ESG) factors

In our view, higher-education entities face elevated social risk due to uncertainty surrounding the duration of the COVID-19 pandemic and its total effect on the university's operations. The university is currently operating under a hybrid remote-learning model to protect the health and safety of students, faculty, and staff, and to limit the risk associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite elevated social risk, we consider Kean's environment and governance risks in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could consider a negative rating action if demand metrics weakened significantly from current levels, enrollment declined resulting in negative operations on a full accrual basis, and available resource ratios deteriorated from current levels. Although unlikely, a shift in Kean's pension or OPEB liabilities could have an effect on our rating. Further unforeseen pressures from the pandemic that cause material weakening of demand, finances, or the trajectory of the school's plan to mitigate the effects of the COVID-19 outbreak may also result in a negative rating action.

Upside scenario

We could consider a positive rating action if the enterprise profile improves such that demand metrics are more in line with other New Jersey state universities. Maintenance of solid margins and continual growth in resource ratios would also be viewed favorably.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, Kean has limited geographic diversity, with 95% of students coming from New Jersey. As such, our assessment of Kean's economic fundamentals is anchored by the local GDP per capita.

Market position and demand

Total FTE enrollment declined a modest 2.2% to 11,329, with a decline of around 3.7% for undergraduate FTEs offset by an 8.6% increase in graduate FTEs. Freshmen matriculation of around 1,702 was slightly lower than previous years, but still higher than 2017 and earlier years, when freshmen matriculation averaged around 1,510. While the university enrolls some transfer students at Kean Ocean and Kean Skylands, the majority of the students will still be at the main campus in Union, N.J. The exchange program where students from Egypt and China come to Union has been temporarily paused, but will likely restart when travel is less restricted.

The university continues to think of personal ways to connect and recruit students in the midst of the pandemic, which has led to success, as evidenced by the 6.3% growth in applications to 10,138 in fall 2020 from fall 2019. Selectivity for fall 2020 was weak at around 78%, but prior to the pandemic was showing real improvement with 69% in fall 2019, compared with 86% in fall 2018. Matriculation was also showing improvement in fall 2019, at around 27%, before the pandemic caused it to decrease in fall 2020 to 21.5%. We would view a return of selectivity and matriculation to fall 2019 levels favorably.

Student quality remains consistent with years past, although due to the pandemic, the university was test-optional for fall 2020 and plans to be for fall 2021. Retention remains lower than the other New Jersey public institutions at 74%, although management is actively working hard on initiatives, including launching a new division specifically focused on student success and retention. Graduation rates also remain lower than peers, at around 50%, although this is something that management is also trying to improve. Given its very local draw, Kean's competitors are mainly other N.J. state universities, including Rowan University, College of New Jersey, Ramapo College, and Montclair State University.

The university has a separate foundation, which increased its net asset position to around $84.3 million in fiscal 2020, primarily due to a $30 million board of trustee scholarship transfer to the foundation. Fundraising is modest at the university and there are currently no plans for a capital campaign.

Management and governance

Kean's board of trustees selected a new president, Dr. Lamont Repollet, on May 11, 2020. Aside from being an alumnus of the institution, he most recently served as the commissioner of education under New Jersey's governor. No other changes have been made to senior leadership, although there is a current search for a senior vice president for academic affairs. A 15-member board of trustees (BOT) governs Kean. The BOT consists of 15 members appointed by the governor with the state senate's advice and consent, and a voting student trustee elected by the student body. An alternate student representative is also selected by the students, but can only vote if the regular student trustee is absent from a BOT governing session. There have been no major changes to the board outside of normal rotations.

A recent strategic plan under the new president was approved in June 2020. Goals are centered around academic excellence and preparing students for the future, along with creating a culture of student success, serving as a resource for the community, building upon a commitment to equity and inclusivity, and securing a financially sustainable future.

Financial Profile

Financial management policies

The college has formal policies for endowment, investments, and debt. It operates according to a multiyear strategic plan and has an informal reserve liquidity policy. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with those of similar providers.

Financial performance

As noted, Kean's operational performance for fiscal 2020 was very good. Despite a reduction in state appropriations, Kean received stimulus and reduced expenses and still posted a healthy operating surplus of $36.1 million. Total adjusted revenues including state appropriations (both operating and fringe benefits) equaled approximately $337.2 million. Net tuition revenue grew by 3.9% as a result of a significant increase in enrollment in fall 2019. Kean remains the most affordable university in the state with respect to in-state tuition and fees for full-time undergraduate students.

For fiscal 2021, management budgeted even more conservatively on the enrollment side, assuming only 10,000 students versus the normal 10,500 students. State appropriations are expected to be restored to around $33 million for fiscal 2021. Despite lower tuition and auxiliary revenue as a result of lower enrollment and occupancy in the dorms and increased expenses related to the pandemic, Kean is expected to more than offset these with the additional CRRSAA funding and disciplined expense management. Therefore, we expect operating margins to remain quite healthy in fiscal 2021.

We consider the university as fairly dependent on student tuition and fees, which constituted 57% of fiscal 2020 operating revenue. Research grants constituted about 18.9%, while state appropriations constituted about 19% of total adjusted operating revenue for fiscal 2020. In general, New Jersey public colleges and universities receive two types of appropriations: operating appropriations and employee fringe benefits paid by the state. Operating appropriations were reduced in fiscal 2020, due to the pandemic, to $27 million from $30 million. Fringe benefits, which are passed through the university to the employees, remained at around $35 million, consistent with previous years. State operating appropriations are expected to return closer to the normal 25% of operating revenue, or $33 million, in fiscal 2021.

Available resources

Available resources (as measured by adjusted unrestricted net assets [UNA]) for fiscal 2020 was around $107.9 million. This remains on par with other state schools in New Jersey. Adjusted UNA includes the UNA of the university (negative $45.2 million), the UNA of the foundation ($4.6 million), and the General Accounting Standards Board

(GASB) 68 adjustments (net pension liability adjusted for inflows and outflows of about $148.5 million). Adjusted UNA represented 35.8% of adjusted operating expenses and 35.7% of debt for fiscal 2020, and we expect similar results going forward. The university's endowment rests mostly at the foundation level and is considered a component unit of the university.

Cash and investments declined to $208.5 million in fiscal 2020, from $229.3 million in fiscal 2019, mainly due to the funding of several planned major capital improvements, including Hynes Hall, 24 units of faculty housing, and the new science labs. Cash and investments relative to expenses and debt were still consistent for the rating, at around 69.2% and 68.9%, respectively. The completion of these projects closes out a period of major facility upgrades for Kean, and other than deferred maintenance projects, no significant capital projects are currently planned.

Debt

Kean had $302.6 million of debt as of June 30, 2020, all of which is fixed-rate. MADS of about $25 million is equal to a relatively high MADS burden of 8.3%, consistent with other New Jersey public universities. In January 2017, Kean entered into a public-private partnership to develop and construct student housing, which involved approximately $43 million of debt. The debt is solely secured by the revenues of the housing project, and therefore not part of the university's balance sheet, although there is a connection between Kean and the project, as the project is located on Kean's land and Kean treats the facilities as part of its student housing program.

We do not anticipate any additional debt in the next few years, given the recent capital upgrades with the use of cash reserves.

Pensions and other postemployment benefits

Kean participates in four retirement plans covering its employees. Three of these pension plans are cost-sharing, multiemployer, defined-benefit pension plans administered by the state of New Jersey, and one is a defined-contribution pension plan, fully funded by definition. The three defined-benefit plans are the Public Employee's Retirement System (PERS), Police and Firemen's Retirement System (PFRS), and Teacher's Pension and Annuity Fund (TPAF). New Jersey, through separate appropriations, pays certain fringe benefits (including pension and health care benefits and Federal Insurance Contributions Act [FICA] taxes) for current and retired university employees. OPEB costs on behalf of university employees are part of the health care benefits just cited.

Because of the implementation of GASB 68, the university recognized a $148.5 million net pension liability on its balance sheet as of June 30, 2020 (factoring in the differential between pension-deferred inflows and outflows), for its proportionate share of the net pension liability for pension benefits to its employees through the state defined-benefit pension plans. We understand these state pension liabilities, although not legally required to be funded by the state, have historically been funded, and are expected to continue being funded, through the state. Therefore, in our analysis of college finances, we have credited the net pension liability to the college's adjusted UNA calculations. We believe the university's operating expenses include adjustments made between pension expense and pension contributions made by the state on the college's behalf. We believe these adjustments enhance analytical clarity from a credit perspective and result in more comparable financial metrics, as long as the state remains able and willing to fund these pension liabilities.

In our view, New Jersey's significantly underfunded state defined-benefit pension plans (39.7% as of fiscal 2020) are a long-term credit risk for New Jersey public colleges and universities if broader pension reform occurs and results in the state shifting funding responsibilities for pension and OPEB for all or a portion of these costs to the colleges and universities.

For more information about New Jersey, see our most recent full analysis published April 12, 2019, on RatingsDirect.

Kean University, New Jersey--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Enrollment and demand						
Headcount	14,064	14,309	14,056	14,226	14,070	MNR
Full-time equivalent	11,329	11,580	11,359	11,315	11,054	14,995
Freshman acceptance rate (%)	78.1	68.6	86.0	82.2	74.4	77.2
Freshman matriculation rate (%)	21.5	27.1	23.2	24.5	23.3	MNR
Undergraduates as a % of total enrollment (%)	83.1	84.7	84.1	84.2	84.0	82.9
Freshman retention (%)	74.0	74.0	72.0	76.0	73.0	77.1
Graduation rates (six years) (%)	50.0	47.0	49.0	49.0	50.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	337,246	335,991	331,899	305,633	MNR
Adjusted operating expense ($000s)	N.A.	301,108	303,526	307,869	290,915	MNR
Net adjusted operating income ($000s)	N.A.	36,138	32,465	24,030	14,718	MNR
Net adjusted operating margin (%)	N.A.	12.00	10.70	7.81	5.06	(0.30)
Estimated operating gain/loss before depreciation ($000s)	N.A.	56,716	51,913	42,509	32,517	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	12,195	5,589	(17,134)	8,245	MNR
State operating appropriations ($000s)	N.A.	64,131	77,770	82,793	67,865	MNR
State appropriations to revenue (%)	N.A.	19.0	23.1	24.9	22.2	22.7
Student dependence (%)	N.A.	57.2	56.8	56.2	58.9	54.1
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	18.9	15.7	15.7	15.8	MNR
Endowment and investment income dependence (%)	N.A.	0.3	0.4	0.3	0.3	1.2
Debt						
Outstanding debt ($000s)	N.A.	302,609	311,117	323,209	324,482	224,613
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	302,609	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	6.86	8.13	9.30	9.80	MNR
Current MADS burden (%)	N.A.	8.32	8.26	8.14	9.69	4.50
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

Kean University, New Jersey--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2021	2020	2019	2018	2017	2019
Financial resource ratios						
Endowment market value ($000s)	N.A.	74,954	27,087	25,900	24,644	131,376
Related foundation market value ($000s)	N.A.	83,320	44,924	40,039	40,123	159,566
Cash and investments ($000s)	N.A.	208,464	229,339	219,961	182,156	MNR
UNA ($000s)	N.A.	(45,218)	(57,413)	(63,002)	(45,868)	MNR
Adjusted UNA ($000s)	N.A.	107,893	101,524	98,119	116,630	MNR
Cash and investments to operations (%)	N.A.	69.2	75.6	71.4	62.6	46.0
Cash and investments to debt (%)	N.A.	68.9	73.7	68.1	56.1	88.4
Cash and investments to pro forma debt (%)	N.A.	68.9	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	35.8	33.4	31.9	40.1	33.5
Adjusted UNA plus debt service reserve to debt (%)	N.A.	35.7	32.6	30.8	37.1	57.2
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	35.7	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.0	11.7	11.4	10.8	15.3
OPEB liability to total liabilities (%)	N.A.	N.A.	N.A.	N.A.	N.A.	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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of March 4, 2021)		
New Jersey Educl Facs Auth, New Jersey		
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Many issues are enhanced by bond insurance.