Discussion Points

Four-Year Public Institutions of Higher Education

1. a. The country's major credit rating agencies' financial outlooks for higher education in 2025 are mixed and note a variety of operating pressures and uncertainty. For example, S&P Global Ratings offers a "bifurcated/mixed" outlook, noting a stable outlook for institutions of higher education with broad geographical reach and steady financial resources but a negative outlook for highly regional and less-selective institutions. At the time of S&P's outlook publication, the agency noted that a new federal administration with different priorities can create additional obstacles for institutions of higher education. While Moody's initially projected an overall stable outlook, the agency recently downgraded its outlook to negative, citing federal policy changes that include research funding cuts, potential decreases in the amount of student financial aid, the potential dismantling of the federal Department of Education, and higher endowment taxes.

In addition to the uncertainty surrounding potential federal funding cuts, the FY 2026 Governor's Budget recommends a $126.5 million reduction in direct operating aid for the four-year public institutions of higher education, a $32.6 million reduction in direct operating aid for the county colleges, and a $23.6 million reduction in support for the independent institutions of higher education.

- *Questions:* **Please discuss the institution's overall financial outlooks for FY 2026. What are the most significant financial pressures that the institution currently faces and in what ways does the institution predict the nature of these pressures changing in FY 2026 and beyond? What actions is the institution taking in response to these financial pressures?**

Despite Montclair's strong balance sheet (rated A2 by Moody's) and consistent adherence to balanced budgets, there are significant financial pressures on both the revenues and expenses of the institution.

On the revenue side, increased competition for students from peer institutions inside and outside of the State has led to increasing discount rates in recent years. The current recruitment cycle is seeing an acceleration of this trend. Montclair has set new records for the total amount of institutional financial aid awarded in each of the past three years and will do so again in the coming year. This discounting means that increased enrollment will not yield commensurate increased revenue.

Also on the revenue side, the prospect of reductions in state grants-in-aid would be significantly challenging. Montclair already receives the least amount of State funding per student of all senior public institutions in New Jersey, with peer institutions receiving three to four times as much funding per student. Additionally, Montclair is grossly under supported in the number of State-funded positions, with a student to State-funded position ratio that is more than double the State average. Further reductions would increase the need to raise net tuition to avoid expense reductions and adverse impacts on the quality of instruction.

In addition to the above, the most significant looming pressure is the proposed cut to the Outcomes-Based Allocation (OBA). This is the one portion of state funding that rewards

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institutions for performance, namely the education and graduation of underrepresented populations and awarding degrees in high-demand fields. The significant cut proposed to the OBA pool will most directly impact institutions like Montclair, that are focused on both educating these populations and producing high-demand degrees.

On the expense side, the statewide collective bargaining agreements in place for much of our workforce create significant upward expense pressure every year. Scheduled salary and wage increases plus expected healthcare and other benefit costs for existing staff will automatically increase personnel expenses in excess of $20 million next year without any increase in our instructional capacity. Our non-personnel expenses are seeing significant inflationary pressures and uncertainties from the country's general macroeconomic circumstances. Costs of everything from IT contracts for critical software, to building materials for maintaining our physical plant, to the materials and supplies used in nursing, theater, TV production, science labs, and other programs will be higher and less predictable in the coming year.

We are responding to these pressures by economizing where we can, by partnering with other organizations to share resources, by expanding our academic programs to reach new markets and new students, and by investing in our capability to generate revenue from sources other than tuition and State support.

- **Please discuss the nature of the policy changes being proposed and implemented by the federal government. How are these policy changes affecting the institution and which policies will have the most significant impact?**

Policy changes from the federal government pose a number of potential negative impacts on Montclair's finances. Most critical would be any reduction in the Pell Grant program and other federal financial aid assistance to students.

Montclair has a large share of Pell-eligible students, with over 50% of the last two entering undergraduate cohorts qualifying for Pell Grants. Currently, our students receive over $60 million per year in Pell grants, which constitutes more than 10% of our total revenue from all sources.

Also significant, despite being less publicized, is support to students from the U.S. Department of Education via various loan programs (Stafford, Parent PLUS, Grad PLUS) that collectively constitute approximately 16% of our total revenue. Even if the funding for these programs is not reduced, the planned transition of their management from the Department of Education to the Small Business Administration (SBA) is concerning. Incumbent Department of Education staff have years of experience in administering these complicated programs. SBA personnel will encounter steep learning curves with minimal time to adjust, which may result in costly delays distributing grants and loans that in turn, reduce the ability of students to afford their education in the coming year.

In other federal policy areas, we have seen some reductions in federal research grant funding that have directly affected some ongoing faculty research and community engagement activities. One example is the U.S. Department of Education Teacher Quality

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Program (TQP) grant, the funding behind our Newark-Montclair Urban Teacher Residency program. The loss of these funds directly impacts the urban teacher pipeline, depriving both our students and the community of a valuable resource.

While the scale of grant reductions for Montclair may be less than other universities have experienced, the impact on researchers to conduct their scholarly work and engage with our neighboring communities will be devastating.

Outside of federal education policy, we are also concerned with the provision of visas for international students. Recruiting greater numbers of international students, particularly at the graduate level, has been a key enrollment and financial strategy for Montclair in recent years and an area of real enrollment and revenue growth. We are concerned that changes in federal immigration policy, particularly towards international students, will reduce the interest and ability of these students to matriculate on our campuses.

1. b. During a time in which tuition and fee revenue can be a less reliable source of revenue due to declining enrollment, institutions of higher education may look to other revenue streams, such as federal or State grants, contracts, and appropriations, to ensure continued operations. As noted previously, however, there is much uncertainty surrounding federal funding reductions and State operating aid is proposed to be reduced in FY 2026.

- *Questions:* **Please explain the extent to which the institution relies on certain types of revenue streams more than others. For what reasons does the institution rely on these revenues over others? Especially in light of potential decreases in federal and State funding, are the institutions concerned that they depend too heavily on certain revenues more than others?**

Montclair is heavily reliant upon revenues that derive from student enrollment. Tuition accounts for 59% of revenue, with auxiliary services (mainly housing and dining) accounting for another 14%. Combined, this represents more than 70% of overall revenue. The second largest source of revenue is State support, at roughly 23% of total revenue. The reliance on enrollment-related revenue has become a necessity as State support has fallen from 33% of total revenue to 21% of total revenue over the last nine years. All other sources – philanthropy, research grants, sales of services, etc. – comprise approximately 5% of revenue. Given the uncertainties around enrollment and government funding, we have been ramping up our development of alternative revenue streams but these will take years to grow into significant shares of revenue.

- **In the event that federal funding and State operating support for institutions of higher education are reduced for the institutions in FY 2026, what are alternative ways in which the institution can raise revenue? To what extent will the institution raise tuition and fees in this scenario and to what extent is the institution constrained in its ability to do so? To what extent do the institutions expect to reduce spending on educational services?**

We cannot raise sufficient funds to offset significant reductions in federal funding and State operating support without raising tuition. There is no other viable option for the

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University. In the last two years, we have had relatively large tuition increases due to the pressure on personnel expenses. Our intention is to raise tuition less drastically this year if State support allows, but we may be forced to do so in the face of significant cuts. Given the socio-economic profile of our student population, we do not have the luxury of raising tuition to the height necessary to more robustly support our operation while maintaining our commitment to accessibility. We are already targeting expense reductions in non-educational and non-instructional areas to accommodate a lower tuition increase and will do everything we can to avoid cuts that reduce the quality of the education we deliver.

2. A significant factor in the financial outlook for an institution of higher education is enrollment since student tuition and fees are a core revenue source for institutions. During the COVID-19 pandemic and the academic years immediately following its onset, enrollment generally decreased for a variety of reasons such as difficulties related to the transition to online learning, uncertainty regarding how the pandemic would affect students' experiences, and certain shifts towards prioritizing employment opportunities over higher education. While the most recent data for Fall 2023 overall indicates an increase in enrollment compared to Fall 2022, enrollment has not returned to the levels experienced immediately prior to the onset of the pandemic.

In addition to recent declining trends in enrollment, higher education officials and researchers warn of a projected decline in the total number of high school graduates in the coming years. This phenomenon, often referred to as the "demographic cliff," may be troubling for many institutions of higher education since the number of high school graduates is a leading indicator for subsequent enrollment trends. Data from the federal Department of Education projects that the number of high school graduates in New Jersey will decrease to 89,750 students in the 2031-2032 school year—marking a decrease of seven percent from the 2018-2019 school year.

- *Questions:* **Please discuss the institution's most recent enrollment trends. Has enrollment been declining and to what extent were any recent declines influenced by the COVID-19 pandemic? To what extent did enrollment shift from in-person courses to online courses and did the institution create more online programming in response to pandemic enrollment trends?**

Enrollment has been steadily increasing in recent years. Montclair has seen its largest incoming undergraduate class and largest total student enrollment in each of the last three years. For the upcoming year, we have planned for flat total enrollment from this year.

We have expanded online and hybrid course offerings, partly in response to the pandemic, but more broadly to increase our capacity for serving students in a variety of modalities. We are further expanding our Montclair Unbound offerings with new hybrid, low residency, and online programs launching this Fall.

- **What is the extent to which the institution relies on tuition and fee revenue? In what ways do declines in enrollment affect the financial health of the institution?**

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As noted above, nearly 60% of revenue derives from tuition and fees with a considerable additional amount from housing and dining services directly driven by enrollment. While we have not experienced declines in enrollment and do not expect to in the coming year, such declines would immediately create a significant burden as most revenue comes from enrollment and the flexibility of our cost structure is limited given the dependence on contracted labor.

- **What is the enrollment outlook for the institution? Does the institution expect that enrollment will eventually rebound to pre-pandemic levels and, if not, what strategies will the institution put in place to right-size operations or academic programming commensurate with any declines? What strategies is the institution putting in place to respond to the prospect of a demographic cliff or, on the other hand, unexpected increases in enrollment? Are there particular academic programs that are at risk of no longer being offered by the institution due to enrollment concerns? Is the institution seeking to increase enrollment in certain academic programs and in what ways is it seeking to do so?**

Enrollment outlook remains strong for Montclair. As noted above, we are at historically high levels of enrollment and expect to maintain that level in the coming year. Our most concerning area is international student enrollment, given the policy and procedure changes at the federal level around student visas. This has been an area of strategic growth in recent years and may need to be rethought.

Montclair is pursuing a number of strategies to maintain and increase enrollment. These include greater investment in institutional financial aid, launching new and expanding existing programs with high potential for enrollment growth, and efforts to improve the sense of belonging and engagement among the student body as a tool to promote increased retention year over year. As mentioned above, the Montclair Unbound initiative is a key component of our plan to develop new programs that meet students in various instructional modalities and in disciplines with the most growth potential.

3. The accumulation of capital needs at institutions of higher education have been cited as an ongoing budgetary pressure following the COVID-19 pandemic. According to Moody's, institutions of higher education across the country face an estimated $750 billion to $950 billion in spending over the next decade to address deferred maintenance, which is generally defined as scheduled or unscheduled infrastructure repairs upgrades, or replacements that is not performed, but instead postponed until a later time. According to follow-up responses during the FY 2025 budget process, the Office of the Secretary of Higher Education noted that the senior public institutions of higher education requested one-year capital funding totaling nearly $4.3 billion through the Commission on Capital Budgeting and Planning. The seven-year funding need was noted to be approximately $13.4 billion. According to commission documentation for FY 2026, one-year capital funding requests totaled $4.9 billion, while the seven-year funding need grew to $15.5 billion.

In July 2023, the Office of the Secretary of Higher Education announced the award of nearly $400 million in capital facilities grants, which are financed by the proceeds of revolving

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bond funds authorized in State law. This was the first time capital grants had been awarded through these bonds funds since Fall 2015. A total of 54 projects were selected for funding through the Capital Improvement Fund, the Higher Education Facilities Trust Fund, the Higher Education Equipment Leasing Fund, and the Higher Education Technology Infrastructure Fund. The programs support the preservation, renewal, and construction of facilities and equipment at New Jersey's institutions of higher education as well as their technology needs.

- ***Questions:*** **Did the institution receive a capital grant through the awards announced by the Office of the Secretary of Higher Education in July 2023? If so, did the grant support the deferred maintenance needs of the institution and how much of the grant award was for deferred maintenance? To what extent did the receipt of the grant reduce the overall levels of deferred maintenance at the institution?**

Montclair received two capital grants through the awards announced in July 2023: a Higher Education Capital Improvement Fund (CIF) grant for the new Interdisciplinary Science Building that is currently in design development and slated to open in Spring 2028; and a Higher Education Technology Infrastructure (HETI) grant used to invest in wireless infrastructure on both the Montclair and Bloomfield campuses. Neither of these grants were related to deferred maintenance needs.

- **Please discuss the institution's overall deferred maintenance needs, including the estimated dollar amount of these needs and an assessment of the overall severity of the needs. To the extent that deferred maintenance needs are severe, for what reasons have the needs gone unaddressed and does the institution foresee having sufficient available funds to address these needs in the future? Does the institution foresee having to take on debt to finance deferred maintenance projects?**

We assess the institution's deferred maintenance needs as totaling $57.8 million, which we believe is relatively low when compared to our peer institutions. This is the result of a longstanding, deliberate policy of not deferring maintenance in the annual operating budget. There are a few areas requiring attention and work in the coming year, including core infrastructure (roofs, HVAC, etc.) in several residence halls and the Student Center. We do expect to be able to address our highest priority deferred maintenance needs this coming year as a result of our sound financial practices of past years and inclusion of this expense in our balanced operating budgets. Barring a dramatic reduction in funding from State or federal government sources beyond what is currently contemplated, the institution will not need to take on debt to finance deferred maintenance projects, though it will need to reduce expenses in a number of areas.

- **What is the overall effect to the institution of not addressing deferred maintenance needs? In what scenarios is it acceptable to continue leaving deferred maintenance needs unaddressed? What is the extent to which prospective students view updated facilities as a selling point for attending the institution?**

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Not addressing deferred maintenance on a regular basis would have a negative effect on the quality of instruction and services we deliver to our students and on the ultimate financial viability of the institution. We believe that it would be an error to leave deferred maintenance needs unaddressed, barring a truly dire short-term financial picture, which we are not facing. Updated facilities are a key selling point for students, including the appearance and upkeep of our buildings and outdoor spaces and the systems and infrastructure of those buildings.

- **To what extent have changes in enrollment influenced capital needs at the institutions? To the extent that the institutions project future declines in enrollment due to the demographic cliff or will offer more online courses to meet student demands for distance learning, do the institutions expect to take certain facilities offline?**

The multiyear growth of enrollment at Montclair has driven capital needs in certain areas, including investments in maintaining residence halls, expansion of IT infrastructure, increasing the flexibility of classroom spaces, and expanding the capacity of core campus utility infrastructure. We do not expect to take any facilities offline. Rather, we are investing in building new facilities and bringing dormant facilities on the Bloomfield campus back to full operational status.

4. Recent federal actions have sought to reduce and eliminate programs and policies that promote diversity, equity, and inclusion. For example, the federal Department of Education sent a Dear Colleague Letter to educational institutions receiving federal funding that directs the institutions to cease using race preferences and stereotypes as a factor in admissions, hiring, compensation, promotion, scholarships, prizes, sanction, and discipline. Noncompliance with the letter may result in investigations and loss of federal funding. On March 14, 2025, the federal department announced investigations into 45 universities that were found to not be in compliance with the Dear Colleague Letter because of their partnership with an organization called "The Ph.D. Project," which assists students from underrepresented groups in earning doctoral degrees.

Meanwhile, an Executive Order directed federal agencies to eliminate all "equity-related grants or contracts." This order may affect institutions of higher education that are found to have been the recipient of an equity-related grant or contract.

- ***Questions:*** **To what extent does the institution have policies or operate programs that promote diversity, equity, and inclusion? Is the institution currently under investigation for having these policies or programs? Does the institution currently receive federal equity-related grants or contracts? Is the institution expecting reductions in federal funding or any other adverse actions from the federal government due to the steps taken to eliminate diversity, equity, and inclusion efforts?**

Within the Division of Student Development and Campus Life (SDCL), we have consistently operated programs that are fully inclusive and open to all students. Over the past year, we carefully reviewed and realigned a number of our programs to ensure

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continued alignment with Montclair's mission and compliance with evolving federal and state expectations. However, the foundational focus of our work, fostering student belonging, engagement, and success, has remained unchanged.

Montclair does not currently face any investigations related to its diversity, equity, and inclusion efforts. We do receive certain federal equity-related grants and contracts that support student success initiatives. At this time, we are not expecting any immediate reductions in federal funding but we are monitoring developments closely.

Montclair's enrollment and hiring practices did not have any DEI components and thus remained unchanged.

- **In what ways is the institution responding to the federal actions against diversity, equity, and inclusion and what actions will need to be taken if federal grants or contracts are lost as a result of the actions?**

In response to federal actions targeting diversity, equity, and inclusion programs, Montclair has proactively ensured that its programs are wholly inclusive by design and are open to all students, without restricting participation based on any protected categories. Should there be any future loss of federal grants or contracts, Montclair will reassess impacted programs and identify alternative funding strategies to ensure that essential student support services continue uninterrupted.