S&P Global Ratings

Research

Research Update:

University of Toronto 'AA+' Ratings Affirmed; Outlook Is Stable

December 12, 2024

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Overview

- We expect that recent federal policy changes will limit international student enrollment in the next few years, pressuring the University of Toronto's (UofT) operating margins.
- However, we believe that UofT's leading market position and robust domestic student demand will remain intact, and that the university will maintain very high levels of cash and investments and a stable debt burden.
- Therefore, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on UofT.
- The stable outlook reflects our view that UofT will navigate the challenges facing the sector without a material and sustained weakening of its financial performance and its exceptional liquidity will continue to bolster its credit profile.

Rating Action

On Dec. 12, 2024, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on the University of Toronto, in the Province of Ontario.

Outlook

The stable outlook reflects our expectation that UofT will manage its expenditures in the next several years to avoid operating deficits while maintaining an exceptional market position, very high liquidity, and a stable debt burden.

Downside scenario

We could lower the ratings in the next two years if enrollment, and subsequently revenues, decreased materially, and management's response was inadequate, resulting in significantly weaker operating margins, debt service coverage, and liquidity. A strengthening of our assessment of the link between UofT and the province would cause us to equalize the ratings with those on Ontario.

Upside scenario

We could raise the ratings in the next two years if UofT's operating margins recover to historical levels greater than 5% of operating expenses and the provincial government materially increased its funding to public universities and relaxed its restrictions on tuition increases, resulting in greater financial flexibility and metrics in line with those of 'AAA' rated peers.

Rationale

The rating reflects our 'aa+' stand-alone credit profile on UofT, which is based on our combined assessment of the university's extremely strong enterprise profile and strong financial profile. The rating also reflects our opinion of a moderately high likelihood that the Ontario government could provide extraordinary support in the event of financial distress.

We expect the confluence of federal policies limiting the influx of international students into Canada, frozen domestic tuition, and sharply increased compensation expenses will weigh on UofT's operating margins in the next several years. However, we believe that the university's superior reputation and position as one of Canada's top research institutions will continue to draw healthy student demand and that UofT's exceptionally high levels of cash and investments, and moderate debt burden, will support the credit profile.

UofT will maintain its excellent market position despite rising uncertainty over international enrollment

The Canadian government reduced the number of new international undergraduate student permits that would be approved for this fall's incoming cohort by about 35% and will enact an additional 10% cut in 2025 and extend the cap to graduate students. Despite this, UofT estimates that its total international enrollment is up slightly from fall 2023 and that total full-time equivalent (FTE) enrollment in fall 2024 rose 3.1%, largely due to healthy domestic undergraduate demand. Although we anticipate that domestic demand will remain very strong, we believe that international enrollment will come under greater pressure in the next few years.

In our opinion, student quality remains strong, as reflected by the university's historically stable retention and graduation rates, averaging about 92% and 78%, respectively, in the past several years. UofT's selectivity rate has weakened slightly in the past four years in response to heightened uncertainty over enrollment through the pandemic and shifting government policies, although in the longer term, we expect that it will trend back down.

UofT is Canada's largest university, with more than 91,000 FTE students across three campuses in the Toronto area, and is the nation's most prominent research institution. For many years, the university has been the highest-ranked Canadian university in several international surveys, including 21st in the 2025 Times Higher Education World University Rankings. This has helped maintain a geographically diversified student body, with about 48% of FTEs coming from outside Ontario and 30% being international students.

Overall, we believe that UofT has an extremely strong enterprise profile, given its leading market position as a flagship institution with strong student demand characteristics. Supporting our opinion is our assessment of the higher education sector's low industry risk characterized by high barriers to entry and typically countercyclical nature, which tends to withstand economic downturns better than other sectors. UofT's credit profile also benefits from excellent economic fundamentals in Toronto, the largest city in Canada, and Ontario, which has high GDP per capita, estimated at about US$53,400 for 2024.

In our view, UofT's management expertise and governance practices are very strong and in line with those of other highly rated Canadian universities. Academic and operational priorities are guided by the university's strategic plan and strategic mandate agreement with the province. These inform the detailed annual budget and long-range operating and capital plans. UofT tracks and reports on sector-standard financial metrics and has formal policies for endowment, liquidity and investments, debt, and reserves that help to adequately mitigate risks.

Operating margins are likely to fall but UofT's exceptional liquidity continues to underpin its financial profile

In our opinion, UofT has a strong financial profile, bolstered by healthy, albeit weakened, adjusted operating surpluses, very high levels of cash and investments, and a moderate debt burden.

Like other public sector entities in Ontario, UofT saw a marked increase in compensation expenses in fiscal 2024 following the repeal of Bill 124, which was found to have unconstitutionally suppressed public sector wage increases for several years. We expect that together with ongoing inflationary increases to operating and capital expenses, and a shifting student mix, this will continue to suppress UofT's operating margins in the next several years, and that they will average about 2.5% of operating expenses in fiscal years 2023-2027.

Similar to that of Canadian peers, the university's limited flexibility to increase student-generated revenue somewhat offsets UofT's strong financial performance. This is primarily because Ontario monitors and guides domestic tuition rates, which have been frozen since the 2019-2020 academic year, and enrollment expansion through operating grants, which we do not expect will increase materially in real terms in the near term.

In our view, UofT's substantial liquidity is a key credit strength and bulwark against any volatility in operating performance. The university held C$8.4 billion in total cash and investments at the end of fiscal 2024, although 43% of this is held in endowed funds. Total cash and investments have risen steadily over many years and we expect they will remain sufficient to cover about 200% of adjusted operating expenses in the next two years despite operating cost pressures and ongoing infrastructure investments.

UofT has the largest endowment of any Canadian university, with a market value of C$3.6 billion at fiscal year-end 2024. It also has superior fundraising capabilities and has raised almost half of its ambitious C$4 billion campaign target.

UofT has a moderate debt burden that we view as very manageable, given its record of operating surpluses and very strong liquidity, with total cash and investments that we expect will remain about 11x debt outstanding in the next several years. This provides a significant safeguard against any reasonable medium-term stress scenario, boosting our view of the university's credit profile. At fiscal year-end 2024, total gross debt outstanding was C$709 million, unchanged from the previous year, and we estimate that the university's maximum annual debt service in the next few years will be stable at 1.6% of adjusted operating expenses, which is lower than the median for peers in the 'AA' rating category.

UofT's debt consists of five series of fixed-rate, 30- and 40-year bullet debentures maturing from 2031-2051. The high number of nonamortizing debentures exposes the university to some refinancing risk at maturity and makes its debt structure more aggressive than that of peers with amortizing debt. However, this risk is largely offset by the self-imposed sinking fund that UofT has established to repay these obligations, with assets totaling C$643 million at fiscal year-end 2024.

The university plans to complete a host of projects in the next few years aimed at helping it achieve carbon neutrality. It expects to externally borrow up to C$113 million by fiscal 2027 to help finance these projects, although we do not expect that this will have a material impact on our assessment of UofT's debt burden.

We believe that UofT's participation in the jointly sponsored multiemployer University Pension Plan Ontario (UPP) limits the potential future impact of any plan deficits on the university's overall credit profile, given the risk-shared nature of the plan. UofT entered the UPP with a strong financial position on July 1, 2021, although it still maintains a small pension benefit plan on its own books with a deficit of C$140 million along with C$699 million of postemployment benefit obligations that it funds on a pay-as-you-go basis. Neither of these liabilities are anticipated to have a material impact on its finances.

Government-related entity analysis: A moderately high likelihood of extraordinary provincial government support

Although it's neutral to our rating, we believe there is a moderately high likelihood that the government of Ontario would provide extraordinary support to UofT in the event of financial distress. This view reflects our assessment of UofT's important role in the province, given that postsecondary education is one of Ontario's priorities in both expenditure and mandate (after health care and school boards), and that there are no viable private alternatives. It also reflects our assessment of UofT's role as Canada's largest university in enrollment and research capacity. The province's regulatory oversight, program approval rights, and domestic tuition regulation over UofT suggest a strong link to it. Also supporting our assessment of the link are the significant operating grants received from the province, accounting for about 17% of the university's adjusted operating reported revenue in fiscal 2024, and the province's appointment of some board members.

We rate UofT two notches above Ontario, with the differential reflecting our view that there is a measurable likelihood that UofT's substantial financial resources would be sufficient to meet ongoing operational and debt service requirements should the government default and temporarily suspend payments to the university. In addition, the differential reflects UofT's status as an autonomous legal entity with ownership of its assets and our view that the university operates independently of the Ontario government. We consider the risk of extraordinary negative government intervention low, given UofT's operational independence, important public policy role, and the government's largely hands-off approach to the sector.

Key Statistics

Table 1

University of Toronto--Key statistics

	--Fiscal year ended April 30--					Medians for 'AA' rated U.S. public colleges & universities
	2025bc	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	91,426	88,652	86,297	85,747	84,807	38,162
Undergraduates as a % of total enrollment	77.3	77	76.2	76.3	76.9	80.2
First-year acceptance rate (%)	N.A.	77.2	78.4	76.8	77.5	73.7
First-year retention rate (%)	N.A.	92.7	91.4	91.1	93.1	85.6
Six-year graduation rate (%)	N.A.	80.1	78.5	77.1	77.1	71.0
Financial performance						
Adjusted operating revenue (C$000s)	4,353,000	4,220,000	4,025,000	3,806,000	3,658,000	MNR
Adjusted operating expense (C$000s)	4,343,000	4,101,000	3,696,000	3,415,000	3,352,000	MNR
Net adjusted operating margin (%)	0.2	2.9	8.9	11.4	9.1	2.1
Student dependence (%)	54.2	54.3	54.8	55.7	54.5	36.2
Provincial operating grant to revenue (%)	17.2	17.2	17.9	18.9	19.8	17.2
Endowment and investment income to revenue (%)	6.5	12.0	7.8	2.1	10.5	1.4
Financial resources						
Endowment market value (C$000s)	3,775,000	3,616,000	3,267,000	3,167,000	3,150,000	1,291,622
Cash and investments (C$000s)	8,583,660	8,378,000	7,706,000	7,456,000	6,949,000	2,690,303
Cash and investments to operations (%)	197.6	204.3	208.5	218.3	207.3	116.1
Cash and investments to debt (%)	1,157.1	1,181.7	1,086.9	1051.6	980.1	290.2
Debt						
Total debt (C$000s)	741,800	709,000	709,000	709,000	709,000	985,387
Current MADS burden (%)	1.6	1.5	1.7	1.8	1.8	3.5

bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Medians are in U.S. dollars.

Ratings Score Snapshot

Table 2

University of Toronto--Ratings score snapshot

Industry risk	2
Economic fundamentals	1
Market position	1
Management and governance	2
Enterprise risk profile	1
Financial performance	3
Financial resources	1
Debt and contingent liabilities	1
Financial risk profile	2
Stand-alone credit profile	aa+
Issuer credit rating	AA+

S&P Global Ratings bases its ratings on global not for profit education providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Global Not-For-Profit Education Providers," published on April 24, 2023, summarizes how the seven factors are combined to derive each global not for profit education provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- Criteria | Governments | General: Global Not-For-Profit Education Providers, April 24, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Not-For-Profit Higher Education Outside Of The U.S. Outlook 2025: Credit Stability Amid Market Turbulence, Dec. 5, 2024
- Australia, Canada, Mexico, And U.K. Public University Fiscal 2023 Medians: Credit Stability Holds But Cracks Are Beginning To Appear, Nov. 12, 2024

Ratings List

Ratings Affirmed	
University of Toronto	
Issuer Credit Rating	AA+/Stable/--
University of Toronto	
Senior Unsecured	AA+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.