S&P Global
Ratings

RatingsDirect®

University of Toronto

November 22, 2021

PRIMARY CONTACT

Adam J Gillespie
Toronto
1-416-507-2565
adam.gillespie
@spglobal.com

SECONDARY CONTACT

Nineta Zetea
Toronto
1-416-507-2508
nineta.zetea
@spglobal.com

RESEARCH CONTRIBUTOR

Deepanshu Goyal
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Gurgaon Haryana

This report does not constitute a rating action.

Credit Highlights

Overview

Enterprise profile	Financial profile
We expect the University of Toronto (UofT) to maintain its leading market position despite disruptions caused by the COVID-19 pandemic.	The pandemic has not had a material impact on UofT's financial performance despite the operational disruptions, and we expect the university will continue generating positive operating margins.
--Student demand and quality have remained strong throughout the pandemic and are not likely to weaken materially in the medium term.	--International students will continue to fuel operating revenue growth while government funding is expected to remain largely flat.
--UofT is the most research-intensive and highest ranked university in Canada, which helps attract international students.	--UofT's credit profile is supported by very high levels of liquidity and the largest university endowment in Canada.
--The economic and demographic fundamentals of the Greater Toronto Area remain very strong and help to sustain domestic demand.	--We believe the university will continue to finance its capital plan without recourse to external debt in the next several years.

S&P Global Ratings' long-term issuer credit rating on the University of Toronto is 'AA+'. The rating reflects UofT's 'aa+' stand-alone credit profile, which is based on our combined assessment of the university's extremely strong enterprise profile and very strong financial profile. The rating also reflects our opinion of a moderately high likelihood that the Ontario government would provide extraordinary support in the event of financial distress. The pandemic severely disrupted on-campus activities in the last two academic years; however, UofT has continued to generate very strong financial results, with excellent investment returns and healthy student demand, particularly from international students, helping to offset losses in ancillary operations, and flat government funding and domestic tuition revenue. We believe that UofT's excellent market position will help maintain the university's good financial performance in the next several years despite lingering risks from the pandemic.

Outlook

The stable outlook reflects our expectations that, within our two-year outlook horizon, UofT will maintain its exceptional market position, very high levels of available resources, and stable debt burden, allowing it to maintain positive operating margins, and that its relationship with the province will not alter materially.

Downside scenario

We could lower the ratings in the next two years if enrollment, and subsequently revenues, were to decrease materially, resulting in significantly weaker operating margins, debt service coverage, and liquidity. A negative rating action on the Province of Ontario would also result in a similar rating action on UofT, given the maximum three-notch rating differential between the university and the province allowed under our government-related entities criteria. All else equal, we could also lower the ratings if we significantly reduce our estimate of UofT's resilience to an Ontario default scenario. Moreover, although highly unlikely, 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 our assessment of UofT's stand-alone credit profile in the next two years if the provincial government relaxed its restrictions on tuition increases, while maintaining its supporting operating grants, resulting in a material increase in student-derived revenues and increased financial flexibility. However, we consider the possibility of this scenario resulting in an upgrade on UofT during our two-year outlook horizon unlikely, given our three-notch cap above the rating on the supporting government.

Rationale

We believe the university 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 countercyclicality and low competitive risk and growth. In addition, the university benefits from excellent economic fundamentals, measured by the province's GDP per capita, estimated to be about US$50,000 in 2021; good income indicators; and moderate employment and population growth projections. UofT is Canada’s largest university with about 95,000 students across three campuses in the Toronto area. It is also Canada's most important research institution and, in recent years, has been the highest-ranked Canadian university in several international surveys. In addition, with more than a third of students coming from outside Ontario, the university's enterprise profile benefits from a geographically diversified student body.

UofT has transitioned back to mostly in-person classes on its main downtown campus after its pivot to online instruction in the spring of 2020. Enrollment growth has remained stable despite the pandemic’s impact on broader student mobility. There were about 85,000 full-time equivalent students (FTE) in fall 2020, an increase of more than 8% over five years and slightly ahead of the university's growth plan, which calls for most enrollment growth to be in graduate and international students. About 23% of FTE students are graduate students, which is in line with that of most Canadian research-intensive universities. In our opinion, student quality remains strong, as reflected by the university's historically stable retention and graduation rates, averaging about 92% and 77%, respectively, in the past several years, as well as a strong selectivity rate below 65%.

In our view, UofT's management expertise and governance practices, as well as financial management policies, are very strong and in line with those of other highly rated Canadian universities. The university's academic and operational priorities are guided by its strategic plan and its Strategic Mandate Agreement with the province. These in turn inform the detailed annual budget and long-range plan, which incorporate operating and capital plans. UofT reviews its performance relative to the plan annually and tracks its progress against specific activity indicators and financial metrics. In addition, it identifies and monitors risks to the plan. The university has formal policies for endowment, liquidity and investments, debt, and reserves, and meets standard annual disclosure requirements. Overall, we view UofT's transparency and disclosure as very good, with policies and procedures in place to adequately mitigate risks, and we believe that the university's overall financial policies are not likely to negatively affect its ability to pay debt service.

In our opinion, UofT has a very strong financial profile, bolstered by healthy adjusted operating margins averaging more than 8% in the past five fiscal years. To date, the pandemic has not had a material impact on the university’s consolidated financials. In fiscal

2021, both domestic and international demand remained robust, maintaining tuition revenue growth, while very strong investment returns helped to offset losses in ancillary operations (housing, parking, food services, etc.). UofT has budgeted for balanced results in its long-range operating budget plan out to fiscal 2026. The plan incorporates expected near-term losses in ancillary operations, and some operational savings to offset elevated health and safety expenditures. Overall, we expect that operating margins will remain positive in the next several years. Similar to that of Canadian peers, the university's limited flexibility to increase its student-generated revenue somewhat offsets its strong financial performance. This is primarily because Ontario monitors and guides domestic tuition rates and student aid (through the tuition framework), and enrollment expansion (through operating grants, which are not expected to increase in real terms).

We also believe that UofT has superior fundraising capabilities relative to its Canadian peers. The university reported C$445 million in gifts and grants received in fiscal 2021, including the largest gift in Canadian history, a C$250 million donation that will be used to support advances in human health and health care. The university is preparing to launch a new fundraising campaign with an ambitious goal of raising C$4 billion. In addition, UofT holds the largest endowment of any Canadian university, with a fair value of C$3.15 billion at fiscal year-end 2021.

In our view, UofT has a relatively moderate debt burden that is very manageable, given its solid operating performance and robust liquidity. At fiscal year-end 2021, total gross debt outstanding was C$709 million, consisting of five series of fixed-rate, 30- and 40-year bullet debentures maturing from 2031-2051. We believe that the high number of bullet debentures makes UofT's debt structure more aggressive than that of peers with amortizing debt; however, the university has established a self-imposed sinking fund to help repay these obligations, with assets totaling C$520 million at fiscal year-end 2021. Our estimate of UofT's maximum annual debt service is equal to a modest 1.8% of adjusted fiscal 2021 operating expenses, which is lower than the median for peers in the 'AA' rating category. The university has identified a potential need for up to C$580 million in additional funding to the end of fiscal 2026 for capital projects that are under consideration but not yet approved. However, some or all this funding could come from grants, fundraising, or internal sources and we do not believe that any likely external debt issuance will exceed UofT's internally approved debt limits or lead to a material erosion of the university's financial profile in the next two years.

A new, jointly sponsored multiemployer University Pension Plan Ontario (UPP) developed by UofT, the University of Guelph, and Queen’s University came into effect on July 1, 2021, covering employees and retirees in the pre-existing plans at all three universities. The assets and liabilities of the universities’ prior plans (C$6.6 billion and C$6.1 billion, respectively, for UofT at fiscal year-end 2021) were transferred to the UPP, and contributions and accrual of benefits under the UPP began on the effective date. The UPP is open to other universities in the province and Trent University will join in January 2022. UofT entered the UPP with a strong financial position and we believe that the risk-shared nature of the UPP limits the potential future impact of any plan deficits on the university's overall credit profile.

In our view, the university has very robust liquidity, providing a substantial buffer against likely volatility in financial performance in the next year or so. It increased total cash and investments to C$6.95 billion at the end of fiscal 2021 from C$5.42 billion in 2020, reflecting strong investment gains in the year. At the same time, our measure of UofT's available resources (internally restricted net assets plus internally restricted endowments) rose to C$1.97 billion from C$1.76 billion the year before; equal to 55.8% of adjusted operating expenses on a three-year, weighted-average basis. Despite potential volatility in enrollment, escalating cost pressures, and internal financing of its capital plan, we do not believe that the level of available resources will decline materially in the next several years. In our opinion, with total cash and investments being greater than 3x the available resources and close to 10x the debt outstanding, UofT's liquidity will remain more than sufficient to fund all debt service requirements and provide a significant buffer against medium-term stress.

Moderately high likelihood of extraordinary provincial government support.

In accordance with our criteria for government-related entities, our view of UofT's moderately high likelihood of extraordinary government support reflects our assessment of its 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 the university'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 20% of the university's adjusted operating reported revenue in fiscal 2021, and the province's appointment of some board members.

We rate UofT three notches above Ontario, the maximum differential allowed in accordance with our methodology for rating government-related entities that depend on ongoing government support. The differential reflects 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. The board is responsible for the management, administration, and control of the university's property and other assets and all business affairs. We consider the risk of extraordinary negative government intervention low, given UofT's operational independence, its important public policy role, and the government's largely hands-off approach to the sector.

In January 2019, the government of Ontario imposed a 10% reduction to domestic tuition for the 2019-2020 academic year and a freeze in 2020-2021 and 2021-2022. Furthermore, the province did not provide additional grant revenue to offset the tuition cut and has yet to release an updated tuition framework beyond fiscal 2022. Neither the federal nor provincial government has provided material direct financial support for universities to offset impacts stemming from the COVID-19 pandemic, although the federal government introduced an emergency income support program for students in 2021 and has increased its grant programs, which help mitigate affordability concerns. Although we do not expect any material increase in ongoing operating or capital funding from the province in the medium term, we believe that there is a moderately high likelihood that the province would provide support to UofT in a distress scenario.

Environmental, Social, And Governance

In S&P Global Ratings' view, higher education entities face elevated social risk due to the ongoing uncertainty regarding the duration of the COVID-19 pandemic, and the unknown impact on enrollment and mode of instruction beyond 2021. We view the risks posed by COVID-19 to public health and safety as a social risk under our environmental, social, and governance (ESG) factors. Despite the elevated social risk, we believe UofT’s environmental and governance risks are in line with our view of the sector as a whole.

Key Statistics

University of Toronto -- Selected Indicators

	--Fiscal year-end April 30--					Medians for 'AA' U.S. public colleges & universities*
(Mil. C$)	**2021**	**2020**	**2019**	**2018**	**2017**	**2020**
Enterprise profile						
Full-time equivalent enrollment (no.)	84,807	82,311	80,652	79,262	78,292	38,513
Selectivity rate (%)	N.A.	60	63	64	72	69
Undergraduates as a % of total enrollment	78	78	79	79	80	79
Retention rate (%)	93	92	92	92	91	87
Graduation rates (six years) (%)	77	77	76	76	75	MNR
Financial profile						
Adjusted operating revenue	3,658	3,480	3,423	3,230	3,022	MNR
Adjusted operating expense	3,352	3,242	3,138	2,973	2,821	MNR
Net adjusted operating margin (%)†	9	7	9	9	7	1

Student dependence (%)	55	52	51	49	47	40
Government operating grant dependence (%)	20	21	21	22	24	19
Investment income dependence (%)	11	5	6	6	7	1
Outstanding debt	709	709	713	715	718	1,022
Maximum annual debt service/total operating expense (%)	2	2	2	2	2	3
Available resources to adjusted operating expenses (%)	59	54	52	46	54	36
Available resources to total debt (%)†	277	248	228	192	212	105

*U.S. median figures are in U.S. dollars. †As % of adjusted operating expense. N.A.--Not available. MNR--Median not reported.

Related Criteria

- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Outlook For Global Not-For-Profit Higher Education: Empty Chairs At Empty Tables, Published Jan. 20, 2021
- Australia, Canada, Mexico, And U.K. Universities Medians Report: Credit Metrics Remain Largely Stable Through Persistent Headwinds, Published June 30, 2021
- 'Back To School' Will Take On New Meaning This Fall, Published May 27, 2021
- U.S. Not-For-Profit Public College And University Fiscal 2020 Median Ratios: The Pandemic Presents New Challenges In An Increasingly Competitive Landscape, Published June 23, 2021

Ratings Detail (as of November 22, 2021)*

University of Toronto	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
08-Mar-2016	AA+/Stable/--
22-Mar-2013	AA/Stable/--
17-Mar-2011	AA/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.