

Announcement: Moody's: Provincial ties strengthen credit quality of universities in Ontario, British Columbia and Quebec

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Toronto, September 04, 2014 -- Universities in Ontario, British Columbia and Quebec have strong relationships with their respective provinces that are core to their solid credit quality, says Moody's Investors Service in the report "Tight Provincial Relationships Strengthen Credit Quality of Universities in Ontario, British Columbia and Québec."

Among the three provinces, Moody's considers oversight and control over universities strongest in Quebec. Ontario's universities have the most operating flexibility, while the controls in British Columbia, where there is a strong collaborative relationship between universities and the province, fall somewhere in between.

In the past, the governments of Québec and Ontario have provided extraordinary financial support to universities when necessary, and Moody's would expect British Columbia to take similar actions if the situation warranted.

Moody's rates most Canadian universities within two notches of the province's rating, to capture these close ties. Moody's rates 10 public universities in Ontario, British Columbia and Quebec, with ratings that range from A3 to Aa1, or well up in the investment grade category.

Although provinces have not been increasing their funding as much as in the past as they grapple with their own fiscal challenges, the universities in Canada have been maintaining modestly positive operating margins, says Moody's.

Overall, direct provincial operating support for Canadian universities were from 30% to 50% of Moody's adjusted operating revenues in fiscal year 2013, the last year for which these figures are available.

The ties, however, can also pose some credit restraints.

"Certain policies and controls can offset some the benefits of close ties by limiting universities' independent financial health. This leaves their credit profiles exposed to factors beyond their control, including changing provincial financial conditions and restraints on revenue growth," says Kathrin Heitmann, a Moody's Assistant Vice President and Analyst.

Provincial policy can limit revenue growth because it often includes imposing enrolment caps. Combined with constraints on tuition pricing, such caps can hinder a university's ability to capitalize on student demand and its pricing power, says Moody's.

"Canadian public universities face excess student demand that they cannot meet, owing to enrolment caps. Since provinces will only provide per-pupil operating funds up to a set enrolment target, the policy constrains revenue growth beyond established goals," says Michael Yake, a Moody's Vice President -- Analyst.

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