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Research Update:

University of Toronto 'AA' Ratings Affirmed Following Ontario Downgrade; Outlook Stable

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Overview

- We lowered our long-term issuer credit rating on the Province of Ontario on July 6, 2015 to 'A+' from 'AA-'.
- Nevertheless, we are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on University of Toronto (UofT).
- The affirmation primarily reflects our view of the independence of UofT's governing bodies, its considerable financial resources, and Ontario's track record of non-interference in the sector.
- The stable outlook reflects our expectations that, within our two-year outlook horizon, the university will maintain its strong student demand profile, its operating budgets will remain balanced, and its debt burden will decline modestly or be stable.

Rating Action

On July 7, 2015, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the University of Toronto. The outlook is stable.

Rationale

The rating action follows the downgrade to the Province of Ontario to 'A+' from 'AA-' July 6, 2015. The affirmation primarily reflects the independence of UofT's governing bodies, its considerable financial resources, and Ontario's track record of non-interference in the sector. These attributes convince us that there is a measurable likelihood that the university would not default on its debt obligations under a short-lived provincial default scenario in which all government funding was temporarily disrupted. Accordingly, we continue to rate UofT in line with its stand-alone credit profile (SACP) of 'aa', which is two notches above the long-term issuer credit rating on Ontario.

The SACP reflects Standard & Poor's view of the university's strong enrollment and student demand profile, solid consolidated financial performance, and robust financial resources. In our opinion, UofT's substantial-but-stable postemployment liabilities, and a significant debt offset some of these strengths.

In accordance with our criteria for government-related entities, our view of the university'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 UofT's role as Canada's largest university in enrollment and research capacity. The province's oversight, program approval rights, and tuition regulation over the university suggest a "strong" link to it.

We rate UofT 'AA' in line with the 'aa' SACP because the independence of the university's considerable financial resources convince us that there is a measurable likelihood that it would not default on its obligations under a provincial default scenario in which all government funding was temporarily disrupted. We also consider the risk of extraordinary negative government intervention to be low, given the university's operational independence, important public policy role, and the government's hands-off approach to the university sector.

We use the "Principles Of Credit Ratings" in conjunction with "U.S. Public Finance: Higher Education," "Rating Government-Related Entities: Methodology And Assumptions," and "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" as our criteria foundation for our analysis of UofT's creditworthiness. We feel that there is sufficient similarity between U.S. and Canadian public university systems such that we believe the U.S. higher education criteria is an appropriate methodology for evaluating Canadian universities' credit quality.

Liquidity

UofT has the largest endowment among Canadian universities, with a fair value of C\$1.9 billion as of April 30, 2014. The endowment has significantly increased in the past 10 years, by about 32% since 2005. Consolidated cash and investments totaled C\$3.4 billion, up 6.6% from fiscal 2013. Total cash and investments represented 127% of adjusted operating expenditures, or 4.6x total debt. Unrestricted financial resources (internally restricted net assets and internally restricted endowments) stood at C\$1.1 billion, up from C\$933 million in fiscal 2013. This equaled about 146% of debt and 40% of adjusted operating expenses. We expect that the university will maintain strong liquidity to support its debt burden throughout our two-year outlook horizon.

Outlook

The stable outlook reflects Standard & Poor's expectations that, within the outlook horizon, UofT will maintain its strong student demand profile, its operating budgets will remain balanced, and its debt burden will decline modestly or be stable. We could revise the outlook to negative or lower the ratings if operating deficits were to emerge as result of a significant reduction in government grants or substantial pressure from rising pension deficits, or if the debt burden were to increase considerably. In addition, negative government intervention from the province, or a significant reduction

in UofT's resilience to an Ontario default scenario as our government-related entity criteria specify could cause us to lower the ratings, potentially to on par with or below that on Ontario, depending on the severity. Conversely, significantly reduced unfunded postemployment liabilities, a substantial decline in debt, or a material rise in unrestricted financial resources could result in an upward revision to the outlook or ratings.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Principles Of Credit Ratings, Feb. 16, 2011
- USPF Criteria: Higher Education, June 19, 2007

Ratings List

Ratings Affirmed

University of Toronto

Issuer credit rating

AA/Stable/--

Senior unsecured debt

AA

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