

Credit Opinion: University of Toronto

University of Toronto

CANADA

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aa1
Senior Unsecured -Dom Curr	Aa1

Contacts

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Key Indicators

University of Toronto

(As of 30/04)	2001	2002	2003	2004	2005
Provincial Funding as a % of Revenue [1]	36.8	34.2	34.2	34.0	35.6
Net Tuition as a % of Revenue [1][2]	22.4	21.3	22.8	22.8	23.3
Interest Expense as a % of Revenue [1]	0.5	1.2	1.2	1.4	1.7
Annual Operating Margin (%)	(0.5)	(2.1)	(1.8)	0.8	3.3
Expendable Financial Resources-to-Expenses (x)	0.7	0.6	0.4	0.4	0.3
Expendable Financial Resources-to-Net-Direct-Debt (x)	12.9	3.0	2.3	1.3	1.1
Total Enrolment (FTE)	45,261	47,446	51,008	55,763	57,887

[1] Revenue is net of scholarships expenses and adjusted to smooth investment returns. [2] Tuition fees are net of scholarship expenses.

Opinion

Recent Developments

The ratings of the University of Toronto reflect the application of Moody's new rating methodology for government-related issuers (GRIs). Please refer to Moody's Rating Methodology entitled "The Application of Joint Default Analysis to Government-Related Issuers", published in April 2005, and its accompanying press release.

Credit Strengths

Credit strengths for the University of Toronto include:

- strong academic and research reputation
- high student demand and positive demographics
- sizeable endowment
- leader in securing federal government research funding

Credit Challenges

Credit challenges for the University of Toronto include:

- ongoing operating pressures
- capital plan requiring additional debt issuance
- uncertainty surrounding the government's tuition policy post 2005-06

Rating Rationale

In accordance with Moody's GRI rating methodology, the ratings of the University of Toronto reflect the combination of the following inputs:

- Baseline credit assessment of 2 (on a scale of 1 to 6, where 1 represents lowest credit risk)
- Aa2 local currency rating of the province of Ontario
- Low default dependence (probability of a default in the case of a provincial default)
- Medium support (likelihood of provincial action to prevent a default by the university)

The baseline credit assessment of 2 is underpinned by the University of Toronto's high level of financial reserves and strong international academic and research reputation. The current financial plan calls for expenditure reductions to ensure that the cumulative operating deficit does not exceed 1.5% of operating revenues by the end of the planning period (2009-10). Financial flexibility has been of key importance over the past decade given the changing provincial funding environment. While the 2005-06 provincial budget announced significant increases to university operating funding over the next several years, uncertainty remains respecting provincial policy on tuition increases post 2005-06 when the current two-year freeze is scheduled to conclude. In February 2006, the government announced that tuition will increase for the 2006-07 academic year, but no policy framework respecting further changes to tuition has been articulated. Moody's will continue to monitor government actions and evaluate the potential impacts of policy changes on the province's institutions.

The university's current approved capital plan totals C\$960 million, which will be used to fund the construction of academic buildings, residences and general infrastructure at the downtown Toronto and two suburban campuses. To finance this plan, the university has issued, to date, C\$435 million in debentures and is planning to issue an additional C\$75 million.

Low default dependence reflects the institution's capacity to secure research funding, supported by sizable expendable financial reserves, which offer 1.3 times coverage of net direct debt.

Medium support reflects the university's status as a highly established independent institution, while also taking into consideration the university's high profile role in delivering post-secondary education, a provincial public policy priority. Furthermore, medium support reflects the more autonomous status of Ontario's universities vis-a-vis the provincial government as compared to universities in some other Canadian provinces.

What Could Change the Rating - UP

Correction of existing small operating deficits, additional flexibility provided by an easing of tuition controls, and increased provincial funding would lend support to the university's credit rating. Continued healthy donations, combined with strong market returns, leading to further substantial increases in the university's endowment would also provide further support for the rating.

What Could Change the Rating - DOWN

Restrictions imposed by provincial policy on the university's ability to manage operating pressures, cuts to provincial funding and/or a prolonged period of poor investment returns on the university endowment fund assets could combine to apply downward pressure on the university's rating.

Rating Outlook

The outlook is stable, reflecting a strong international academic and research reputation, strong student demand and a sizable endowment.

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