Rating Report
University of Toronto

DBRS Morningstar
August 10, 2021

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Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debentures	AA	Confirmed	Stable

Rating Update

On August 5, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures rating of the University of Toronto (U of T or the University) at AA with Stable trends. The ratings reflect the University's exceptional academic profile, strong student demand, and effective financial management practices, which have translated into positive operating results and a strong balance sheet despite the ongoing Coronavirus Disease (COVID-19) pandemic. The challenging operating environment—including constrained provincial funding and the ongoing tuition freeze for domestic students—remains a challenge for all Province of Ontario (Ontario or the Province; rated AA (low) with a Stable trend by DBRS Morningstar) universities.

Similar to other universities, the coronavirus pandemic affected the University's operations and prompted it to exercise cost-control measures to offset revenue pressures. Operating pressures arising from the pandemic led to a loss of some ancillary revenues (such as residence fees, parking, and hospitality revenues, etc.) and added expenses toward pandemic-related research and emergency financial support to students. Despite the pressures, the University reported a surplus of $726 million or 18.2% of revenues for the year ended April 30, 2021, compared with a surplus of $441 million or 12.2% of revenues in the previous year.

The University continues to present a balanced operating budget in 2021–22 with the deficit from ancillary activities to be bridged using prior-year surpluses. The University expects to resume partial on-campus learning by September 2021, assuming travel restrictions ease with the ongoing coronavirus vaccine rollout, and it expects to meet its enrollment targets. The University's COVID-19 Readiness Plan, aimed at providing students with support and accommodation during any required quarantine period, was approved by the federal government in October 2020, allowing international students to enter the country. However, DBRS Morningstar recognizes that considerable uncertainty still lingers around student mobility, led by the transmission of new coronavirus variants, complicated travel and visa rules, and the implementation of coronavirus vaccination plans. Nevertheless, DBRS Morningstar notes that U of T has significant balance-sheet flexibility, a strong management team, and a responsive budget model, and it continues to identify opportunities to increase revenue and to control or defer costs.

The strength of U of T's balance sheet and its effective approach to capital budgeting likely preclude the need for material new borrowings in the near term. As such, DBRS Morningstar projects the University's debt burden will fall below $7,800 per full-time equivalent (FTE) student by 2025–26 from $8,337 in 2020–21.

DBRS Morningstar does not expect the ratings to shift materially given the University's exceptionally strong financial ratios and prudent fiscal management. Though unlikely, a negative rating action could result from a significant and sustained deterioration in operating results, leading to a substantially weakened balance sheet.

Financial Information

	For the year ended April 30				
	2021	**2020**	**2019**	**2018**	**2017**
Consolidated operating result (adjusted, $ millions)	726	441	505	465	417
Debt per FTE ($)	8,360	8,614	8,816	8,995	9,145
Expendable resources to debt (%)	292	284	245	208	207
Interest coverage ratio times (x)	12.4	10.5	11.6	10.5	8.8
Surplus (deficit) to revenue (five-year rolling average; %)	14.2	12.0	11.6	10.3	8.7

Sources: U of T and DBRS Morningstar

Rating Considerations

Strengths

1. Strong reputation and student demand

U of T is one of Canada's leading universities and benefits from the strong reputation of its comprehensive academic and research programs. Its established academic profile and strong demand from both domestic and international students continue to support enrollment-related revenues. The University's credit profile further benefits from the scale of being the largest university in Canada and being located in Canada's largest population centre.

2. Robust balance sheet

In recent years, the University's balance sheet has shown consistent improvement, resulting in considerable financial flexibility. Financial resources in the form of expendable resources (+85%) have risen strongly since 2015–16. As at April 30, 2021, expendable resources were over 2.9 times (x) the University's long-term debt.

3. Effective financial management practices

The University has effective management practices. The budget process is highly decentralized, emphasizing local responsibility and control, which has led many divisions to achieve strong results and build reserves in recent years, translating into substantial surpluses at the institutional level. U of T authorizes the budgeting of a deficit only in extraordinary circumstances, and it requires an accumulated deficit to be eliminated by the end of the five-year planning period. The University also has a debt policy and capital-planning processes that seek to meet the University's growing needs while preserving its long-term financial flexibility.

4. Downtown Toronto real estate

The University owns a portfolio of real estate valued at more than $2.0 billion, well above its outstanding long-term debt. This includes approximately 49 hectares of land on the St. George campus and a further 211 hectares on the University of Toronto Scarborough (UTSC) and University of Toronto Mississauga (UTM) campuses. The University continues to actively explore opportunities to use its prime real estate holdings to generate new revenue to support its academic mission.

Challenges

1. Limited control of revenue

Canadian universities have limited control over their main revenue sources—tuition fees and government grants. In recent years, the Province implemented changes to the tuition fee framework to reduce fees by 10% for domestic students in regulated programs and subsequently freeze them. U of T indicated that the adverse impact from the extended freeze is a decline of about $26 million in 2021–22 revenue.

2. Cost pressures

Underlying cost pressures are somewhat detached from the University's revenue drivers. Universities' expense bases are largely fixed and growing in the form of tenured faculty, unionized support staff, externally mandated student aid requirements, and large infrastructure footprints. In recent years, inherent cost pressures—such as negotiated wage settlements, competitive salaries for top researchers, and increasing benefit costs—have tended to outpace provincially controlled revenue growth for many DBRS Morningstar-rated universities. The fixed nature of expenses also tends to slow the pace at which universities can respond to a significant exogenous shock to revenue, such as the coronavirus pandemic.

3. Deferred maintenance

The University has a considerable amount of deferred maintenance (DM) on its St. George campus, which reflects the University's long history. The University currently estimates DM to total $899 million. The University's facilities condition index (FCI) increased moderately to an average of 15.7%, which is higher than that of the Council of Ontario Universities (11%). Over the last decade, the University has increased funding to address DM, which has significantly reduced the highest-priority category needs. However, DBRS Morningstar expects total DM liability to increase further because of recently implemented changes to the sector-wide Facilities Condition Assessment Program (FCAP) that will be implemented over the next five years.

4. Large pension and postemployment benefit liabilities

The University made some amendments to its pension plan during 2020–21, and the plan was valued using the assumptions of the multiemployer jointly sponsored pension plan (the University Pension Plan or UPP) to facilitate the planned transition. As at April 30, 2021, the pension plan reported a surplus of $641 million because of strong investment returns during the year. However, given the uncertainty of the University to realize the pension plan's benefit asset in the future under the UPP, in accordance with accounting principles, the surplus is not reflected in the University's financial statements. The University reported a $127 million accrued pension liability, which mainly represents its supplemental retirement arrangement. Although transition to the UPP (see more details in the Debt Outlook section) will eliminate solvency contribution requirements and is generally viewed positively for the operating budget, the University will be responsible for servicing any past liability. U of T also has a large unfunded obligation for nonpension postemployment benefits of $696 million.

2020–21 Operating Performance

The University reported a surplus of $726 million or 18.2% of revenues for the year ended April 30, 2021, compared with a surplus of $441 million or 12.2% of revenues in the previous year. Enrollment growth, international tuition fee increases, strong investment returns, and an increase in donations as well as grants were the main factors that drove the result—somewhat offset by loss of ancillary revenues from residence operations, parking, and hospitality. The strong international enrollments also helped mitigate impacts from the domestic tuition freeze.

In 2020–21, total revenues increased by a robust 10.3%, largely driven by higher tuition revenues and higher investment returns. Tuition and student fees drive roughly half of total revenue at U of T, and revenue increased 13.7% from the prior year because of a growth in international enrollments (+8.6%) and related tuition fee increases, which also helped mitigate adverse impacts from the domestic tuition freeze. Investment income almost doubled to $384 million compared with $178 million in the previous year, driven by strong investment returns on its endowments of 24.2% compared with the prior year's returns of 1.5%.

Government operating grants were largely stable (+0.6%) and in line with the provincial corridor funding model that emphasizes stable domestic enrollment. Research grants and contracts revenue increased (+9.5%), largely benefitting from additional funds received under the Canada Research Continuity Emergency Fund introduced by the Government's COVID-19 Economic Response Plan. Ancillary operations reported lower revenues (-27.2%) as a result of the pandemic-induced continued low levels of campus activity, which affected revenues from services such as residences, food, and parking.

In March 2021, additional one-time provincial support was announced that was intended to support institutions with financial sustainability challenges driven by the pandemic. For larger universities the support was limited to tuition losses resulting from the pandemic exceeding 40% of operating reserves. The University did not receive any allocation under this program because tuition fee revenue exceeded targets.

Total expenses rose by 2.8%, mainly led by higher salaries and benefits (+1.8%) that resulted largely from negotiated compensation increases. Containing annual compensation increases to no more than the rate of steady-state revenue growth is one of the most important cost-containment strategies of the University. Some of the increased spending on materials and supplies (+9.4%) and increased student aid (+7.7%) in 2020–21 resulted from the need to provide financial assistance to students affected by the pandemic. These costs were associated with the switch to online programming. Additional expenses were also incurred in providing support and accommodation to students who chose to enter Canada in

October after the federal government eased some of the travel restrictions for students. The growth in expenses was partly offset by lower spending on sales and services (-24.8%) and utilities (-6%).

Net assets increased by $1.6 billion (+25.5%) to $8.1 billion in 2020–21, driven by an operating surplus of $726 million, strong investment gains on endowments of $445 million and $348 million on pension plan assets, as well as an increase of $124 million in donations.

2021–22 Budget

In February 2021, the board approved the University's 2021–22 operating budget. The University continues to present a balanced operating budget with the deficit from ancillary activities to be bridged using prior-year surpluses. Ancillaries posted a deficit of $47.7 million during 2020–21, and to subsidize these losses the University has allocated a deficit spending room of $50 million to ancillary units, and this is expected to be reduced to zero over the next five years.

The University has a decentralized, modified responsibility-centre budget model, which has supported strong operating results in recent years. Like most Ontario universities, U of T provides only medium-term guidance on the performance of its operating fund (over 75% of consolidated revenues in F2020–21). U of T's operating budget is an aggregation of the multiyear budget plans prepared by individual faculties and is balanced at the institution level.

On April 30, 2021, the provincial government announced that it would extend the domestic tuition fee freeze for an additional year, although it would allow tuition fee increases of up to 3% for domestic out-of-province students in the 2021–22 academic year. The budget was prepared conservatively with an assumption that domestic tuition fees would remain frozen, which would result in $26 million of forgone tuitions fees during 2021–22 (compared with the previous framework, which allowed 3% increases on average). To mitigate some of the impact, the University also sought to implement some cost-containment measures (capital and other expense deferrals, hiring delays, etc.). International tuition fees remain unregulated and are set to increase by 2.3% on average in 2021–22.

The operating budget forecasts an operating revenue of $3.1 billion for 2021–22, which is largely stable compared with the previous operating budget estimated and reflecting an increase of 4.4% over 2020–21 revenues. The main drivers of revenue growth include robust growth in tuition and student fees (+7.6%), led by international enrollment, because domestic tuition fees remain frozen in 2021–22, and domestic enrollment is likely to remain around current levels because of the funding model. U of T expects to add 2,061 international FTEs across its three campuses, resulting in its international undergraduate headcount to reach approximately 30% of total headcount by 2025–26.

A new Strategic Mandate Agreement (SMA3) was signed with the Province and covers the 2020–21 to 2024–25 fiscal years. SMA3 will include a set of 10 performance metrics, with funding consequences if the University does not meet the negotiated performance targets. However, the Province announced that funding has been decoupled from negotiated performance targets for two years until 2022–23. Although the allocation of operating grants will shift from an enrollment-based approach to a performance-based approach, provincial operating grants are expected to remain stable through the medium term, given the University's strong performance.

Operating expenses are forecast to grow by 4.4%, primarily based on academic expenses rising by 3.6%, higher shared infrastructure costs (+5%), and student aid (+12.7%).

In recent years, U of T has implemented several initiatives with a focus on environmental, social, and governance considerations. Some of the key initiatives include the following:

- All large academic and research capital projects since 2006 have been built to target the Leadership in Energy and Environmental Design silver minimum, which focuses on the use of sustainable or green resources and materials.
- There has been a significant commitment to enhancing and formalizing the University's approach to Responsible Investing relating to its endowment and operational investment assets. The University of Toronto Asset Management Corporation (UTAM), which manages the University's investment portfolios, signed the United Nations Principles for Responsible Investment in 2016. UTAM has committed to reducing the carbon footprint of the pension and endowment portfolios by 40% by 2030.
- The University is also part of various partnerships and collective action groups formed to combat climate change, notable among which are the U7+ Alliance and the University Network for Investor Engagement.

Fall-Term Outlook

The Fall 2021 enrollment outlook appears to be robust with a strong growth in applications—particularly from in-province students. For the out-of-province students, fall registration for most faculties continues until late August. As such, the total number of these applications that will translate into actual enrollment will remain unclear until later in the Fall. International student enrollments are also expected to remain positive, supported by the University's strong reputation and ongoing recruitment strategies. The University expects to resume partial on-campus learning by September 2021, assuming travel restrictions ease with the coronavirus vaccine rollout continuing as planned, and it expects to meet its domestic as well as international enrollment targets. However, DBRS Morningstar recognizes that considerable uncertainty still lingers around student mobility, led by ongoing or potential coronavirus waves across countries and the transmission of new coronavirus variants, complicated travel and visa rules, and the implementation of coronavirus vaccination plans.

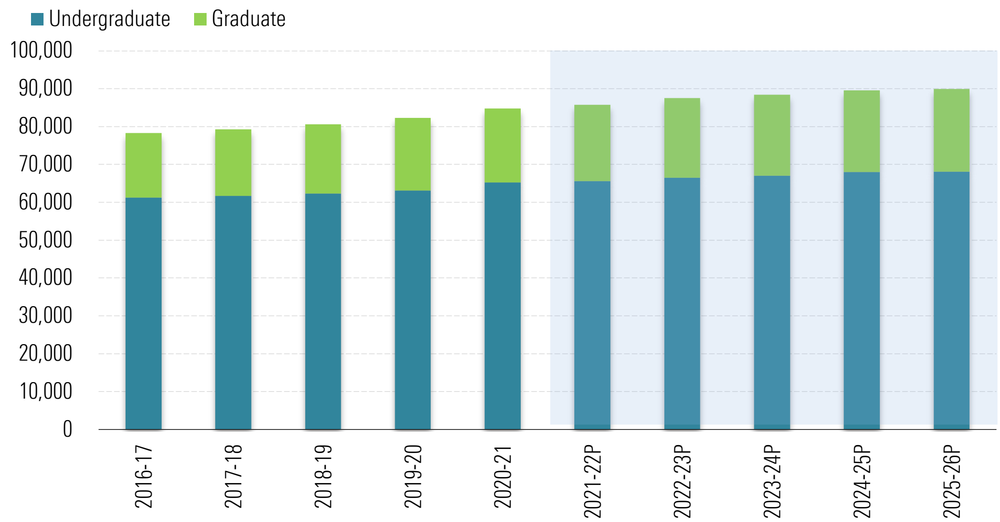
Medium-Term Outlook

Over the medium term, U of T does not expect a meaningful shift in the student mix, anticipates modest enrollment growth driven by international students, and intends to add some graduate spaces. These spaces remain under negotiation with the province and are not reflected in SMA3.

The University's strategic focus remains on diversifying international enrollment, improving student experience, and developing alternative revenue sources through its four-corners strategy that also includes leveraging the University’s large real-estate assets. Although not included in its current medium-term projections, U of T plans to generate operating funding of roughly $50 million annually by

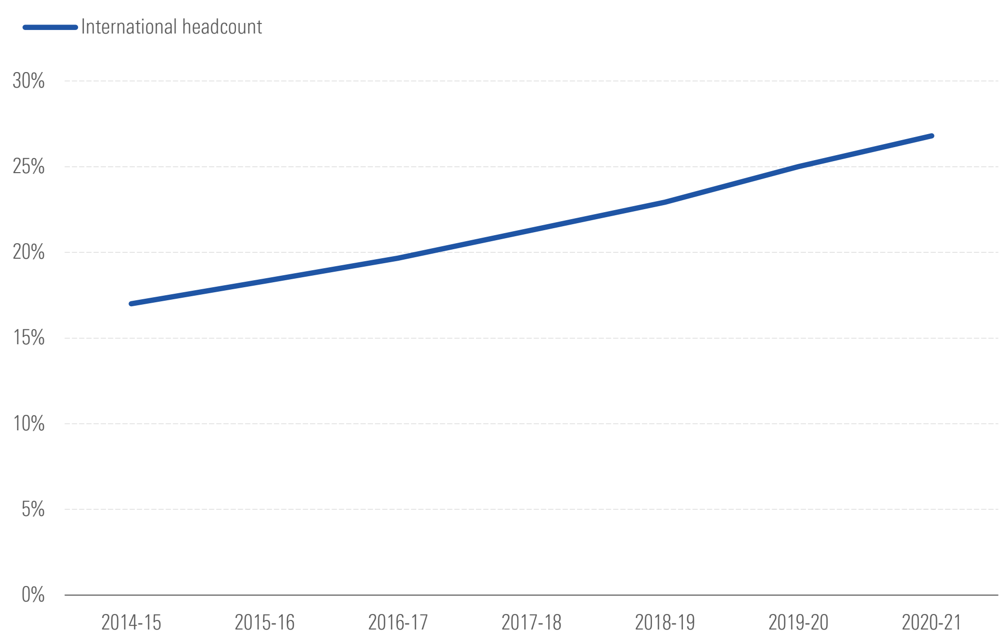
2033 through the development of close to 3.5 million square feet of new space (campus services, amenities, office and retail spaces) under its four-corners strategy.

Exhibit 1 Enrollment (FTE Students)



Sources: U of T and DBRS Morningstar. P = projection.

Exhibit 2 International Headcount (As a Share of Total Headcount)



Sources: U of T and DBRS Morningstar.

SMA3 was implemented starting 2020–21, although any financial impacts have been deferred by two years until 2022–23 in light of the pandemic. SMA3 will include a set of 10 performance metrics, with funding consequences for not meeting the negotiated performance targets, thereby introducing a new accountability mechanism. The University has indicated in the budget that by 2024–25, 60% of provincial operating grant revenue will be tied to performance metrics. Given the U of T's strong performance, the shift to performance-based funding is expected to have no impact on provincial operating grant revenues over the medium term.

U of T is currently in negotiations to renew collective agreements with several employee groups. In 2021, the University provided a retroactive 1% increase in compensation to certain groups, including Faculty Association, Administrative and Technical Staff (United Steel Workers (USW) Local 1998), Teaching Assistants and Course Instructors (Canadian Union of Public Employees (CUPE) Locals 3261 and 1230), and Ontario Public Service Employees Union (OPSEU) Locals 519 and 578, covered by one-year collective-agreement extensions that had their terms and conditions frozen due to the coronavirus. However, a majority of the University's other collective agreements expired in April and June 2021 or are set to expire over the fiscal year 2021–22, which introduces some added uncertainty to the University's operating expense outlook. Nevertheless, DBRS Morningstar notes that the Province has passed legislation to limit wage and salary increases in Ontario's public sector.

U of T's Chief Financial Officer, Sheila Brown, retired at the end of July, and the University is currently in the process of identifying her successor. In the interim the University's Controller & Director, Pierre Piché, is serving as the Interim Chief Financial Officer. The University also recently announced the appointment of Chuck O'Reilly as the President and Chief Investment Officer for UTAM. Chuck joined UTAM in 2011 and was previously the Senior Portfolio Manager and Head of Public Equities with vast experience in institutional investment management. Other management changes include a new vice-president (VP), research; VP, international; and VP and principal of the Mississauga campus, which were largely internal movements rather than external hires.

Capital

The four-corners strategy introduced in 2018 continues to encompass U of T's capital plans for academic purposes as well as for developing non enrollment-based revenues. In recent years the University has accelerated the pace of its capital construction program to accommodate enrollment growth by focusing on investing in academic and research infrastructure expansion at all three of its campuses. The University also has capital needs toward maintaining and upgrading aging infrastructure, particularly at its St. George campus.

Capital spending increased to $315 million in 2020–21 (from $254 million in 2019–20). The University has identified 32 capital projects with a capital outlay of $4.1 billion over the next five years, including $3.1 billion for academic needs and $1 billion for developing non enrollment-based revenues under its four-corners strategy. Some of the larger capital projects approved for over the medium term include the following:

- **Fitzgerald Renovation:** The project involves the complete renovation of the historic Fitzgerald building into a high-performance office environment to be used primarily for the University's Central Administration. Construction began on this project in September 2020 and will likely be completed by June 2022.
- **Schwartz Reisman Innovation Centre:** The project comprises 22,900 square metres (m^2) of tenant space and 2,300 m^2 of parking space devoted to high-impact research and innovation projects. The project has faced some delays because of the pandemic, municipal approvals, and drainage line issues, and the likely completion date is January 2023.
- **New Science Centre at UTM:** The building will increase capacity for scientific research, laboratories, and support spaces, particularly in the Centre for Medicinal Chemistry and in the Forensic Science Program. Construction began on this project in March 2020.
- **UTSC Residence:** This project includes a 750-bed residence with single- and double-occupancy bedrooms, and mixed-use space such as support, office, and retail space. Construction is scheduled to be completed in March 2023.
- **Landscape of Landmark Quality:** This project includes a revitalization of the University's historic core and the addition of geothermal capacity to service several buildings. The completion date for this project is currently April 2023.
- **Student study spaces:** The Robarts Commons ($37.2 million approved), and renovation of the pre-existing Student Commons ($24.5 million approved) projects began in June 2017. Both projects faced several delays in the past from one or more of the following: site conditions, municipal approvals, design reviews, and retendering, among others; however, the renovation of the Student Commons was completed in January 2021, with the Robert Commons projects also expected to be completed during the year.

The University has a well-established capital budgeting process that seeks to direct resources to the highest-priority projects (aligned with academic plans and University needs). U of T requires capital proposals to include funding plans and relatively large upfront cash contributions as well as for the incremental operating costs to be fully accommodated in divisional budgets. With this approach, the University has been successful in prioritizing capital development while maintaining a strong balance sheet.

U of T has several capital projects in the design phase, including the Spadina-Sussex residence, several projects at UTSC (a second instructional centre, parking space, and UTSC Indigenous House), Academic Tower, the Harbord residence, and a new academic building at Woodsworth College. Over the medium term, the University also plans renovations in several arts and sciences buildings at the St. George campus; a new Data Sciences Centre; and the Centre for Civilizations, Cultures, and Cities building at the McLaughlin Planetarium site on Queen's Park.

Deferred Maintenance

The University has one of the largest and oldest university campuses in North America. As such, U of T has a considerable amount of DM estimated at $899 million, down by $85 million from the previous year driven by recent renovations. The bulk of the DM is concentrated on the older St. George campus. The

University's FCI increased moderately to an average of 15.7%, which is higher than that of the Council of Ontario Universities (11%). The current campus-specific FCI estimates are 20.8% for UTSC, 14.6% for UTM, and 15.5% for St. George. The operating budget for 2021–22 includes $28.0 million toward DM, and by 2024–25, the University expects an annual DM allocation of $36 million across the three campuses. The University also estimates additional resources at $10.5 million annually through the provincial Facilities Renewal Program (FRP). In its 2021 budget the Province announced a $493.0 million investment under the FRP.

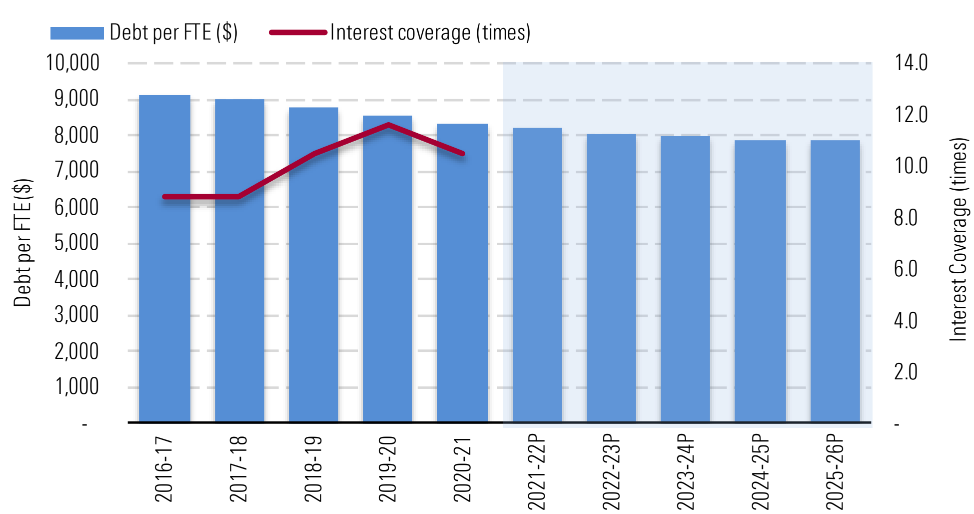
The University has made significant progress over the last decade to reduce its highest-priority maintenance needs. However, DBRS Morningstar expects the University's total DM liability to increase because of recently implemented changes to the FCAP, including standardization of reporting to include soft costs associated with professional services and consulting fees, assessment of supporting infrastructure, and frequent auditing (every five years, as opposed to seven years) across the sector. The magnitude of increase is uncertain at this time and will be monitored over the implementation phase of five years.

Debt and Liquidity

The University's total debt was stable at $709 million as at April 30, 2021. Benefitting from ongoing enrollment growth, the debt burden fell to $8,360 per FTE as at April 30, 2021, from $8,614 per FTE the year prior.

U of T's outstanding debentures are long dated, with maturities spread between 2031 and 2051. Interest charges were stable at $38.0 million, or 1.2% of total expense, and interest coverage was robust at 12.4x—notably higher than the average of DBRS Morningstar-rated universities (5.3x).

Exhibit 3 Debt Per FTE and Interest Coverage



Sources: U of T and DBRS Morningstar. P = projection.

The University has established a voluntary debt repayment fund, the Long-Term Borrowing Pool, which had a balance of $520 million as at April 30, 2021. Because the sinking fund is not explicitly required by the bonds' indenture and is not held by a trustee, DBRS Morningstar presents debt on a gross basis with the sinking fund assets included in its measure of expendable resources.

DBRS Morningstar calculates expendable resources as a measure of the strength and flexibility of a university's balance sheet, defined as a subset of net assets, which includes unrestricted net assets, internally restricted net assets, and internally restricted endowments. U of T's expendable resources have risen steadily in recent years propelled by positive operating results and reserve accumulation and remains the highest among DBRS Morningstar-rated universities at $2.1 billion, or 292% of debt, as at April 30, 2021.

The University also benefits from its sizable endowments of $3.2 billion. The market value of the endowments increased by 25.5% as at April 30, 2021, driven by strong investment returns of 24.2% compared with the prior-year return of 1.5%. On a per-FTE basis, U of T's endowment of $37,143 remains one of the largest among Canadian universities, with the majority of funds endowed for student aid and chairs and professorships.

Employee Future Benefits

On July 1, 2021, the University, along with Queen's University (rated AA with a Stable trend by DBRS Morningstar) and the University of Guelph (rated A (high) with a Positive trend by DBRS Morningstar), officially transferred their pension plans to the UPP. The UPP is a multiemployer, risk-sharing defined-benefit plan that employers and plan members jointly govern and fund (following a transition period). It was formally established on January 1, 2020. Trent University's Faculty Association Plan will also join the UPP starting January 2022, with other Ontario universities and their members expected to join over the long term. DBRS Morningstar views the adoption of UPP by Ontario universities positively.

The University's pension plan was valued using the assumptions of the UPP during 2020–21 to facilitate the planned transition. As of April 30, 2021, the pension plan reported a surplus of $641 million because of strong investment returns during the year. However, given the uncertainty around the ability of the University to realize the pension plan's benefit asset in the future under the UPP, in accordance with accounting principles, the surplus is not reflected in the University's financial statements. The University reported a $127 million accrued pension liability that mainly represents its supplemental retirement arrangement.

Under the UPP, the University is not required to fund a prescribed Provision for Adverse Deviation or make solvency special payments or contributions to the Pension Benefits Guarantee Fund. Further, any postimplementation deficits will be fully funded by the University for the first 10 years, which will then decline to a 50%-50% shared responsibility with the employees over the subsequent 10 years. Until the time the requisite funding level is determined, the University will continue to include in its medium-term budget plan an annual increase of $5 million to the pension special payments budget amounting to $137.2 million by 2023–24 and maintain payments at this level to 2025–26.

Other employee future benefits increased during the year to $696 million. Unlike the pension plan, Canadian universities are not required to set aside funds for employee benefits. Nevertheless, U of T has set aside investment assets worth $140 million as at April 30, 2021.

Outlook

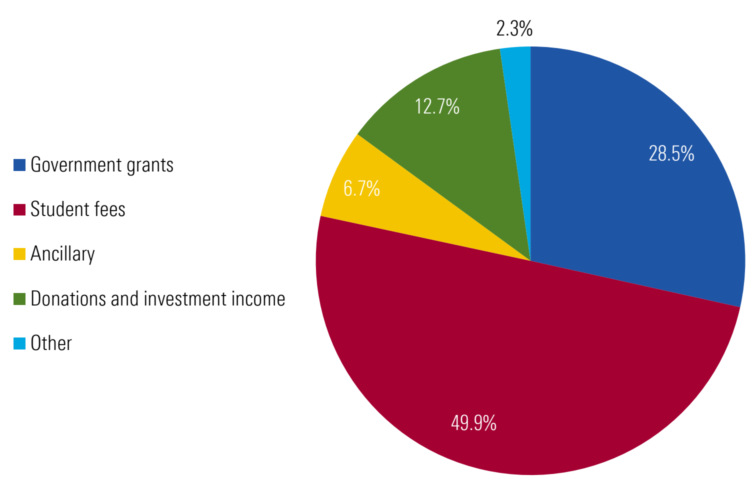
The University has plans for several major capital projects over the next few years; however the funding for these projects is expected to come from divisional operating reserves and donations and does not anticipate any material external borrowing over the medium term. As indicated in the budget report 2021–22, the University also plans to use no more than 20% of required capital from long-term debt, limiting material increases in debt. Assuming no debt issuance over the next five years, DBRS Morningstar projects debt per FTE to be $8,246 in F2022 and to decline to roughly $7,884 by F2026. The University has considerable balance-sheet flexibility to fund capital needs internally, if needed.

University Funding in Ontario

Canadian universities in the Province generally have three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees, and (3) donations and investment income. For U of T, these accounted for roughly 91% of total revenue in 2020–21, which is comparable with other DBRS Morningstar-rated universities.

Provincial government funding remains one of the primary sources of revenue for universities across the country, although its relative importance remains under pressure in most provinces because of strained finances and competing priorities. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants, which have declined, and tuition fees, which have increased.

Exhibit 4 Revenue Breakdown (2020–21)



Sources: U of T and DBRS Morningstar.

Government Funding (Provincial and Federal; 28.5%)

Government funding includes operating grants, research grants, and contracts as well as capital grants. Operating grants are the most important and stable revenue source.

The Province and universities have signed new SMAs that establish performance-based funding targets for the 2020–21 to 2024–25 fiscal years. This is a change from the previous enrollment-oriented funding model. SMA3 will include a set of 10 performance metrics, with funding consequences if the University does not meet the negotiated performance targets. However, the Province has decoupled funding from performance targets (i.e., stable funding) for two years until 2022–23.

Research and capital grants are another important source of funding. The federal government typically provides 65% to 75% of all public research funding, whereas the Province provides the bulk of capital funding. Since the announcement of the global coronavirus pandemic in March 2020, the federal and provincial governments have provided additional funding for financial assistance to students and universities to offset some pandemic-related costs.

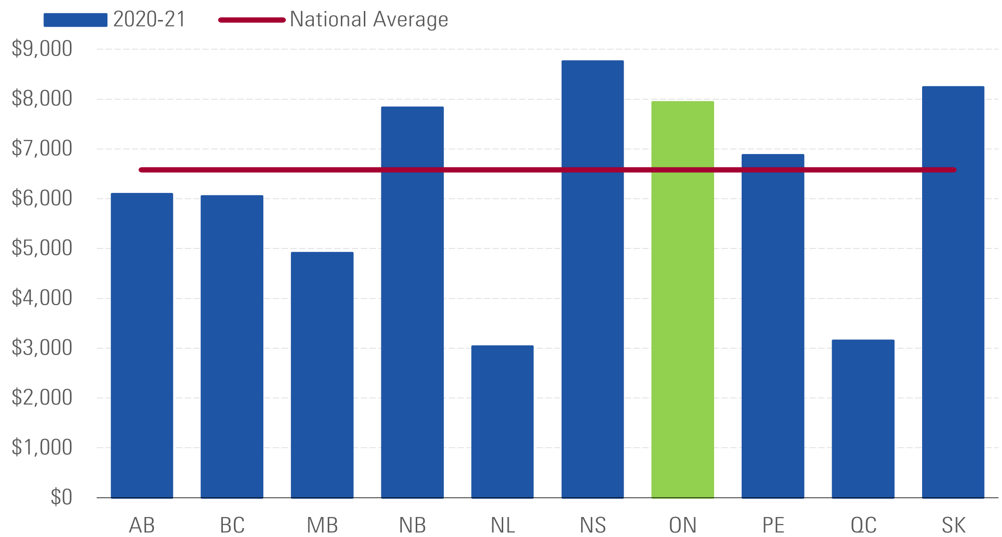
Research revenue is recognized as deferred contributions on the Statement of Financial Position until spent on research, at which time it is recognized as income. The majority of research funding at U of T comes from several federal sources, including the Tri-Councils and the Canada Foundation for Innovation.

Student Fees (50%)

On January 17, 2019, the Province announced a revised tuition fee framework for regulated domestic programs at Ontario universities and colleges. The framework required Ontario universities to reduce tuition fees for domestic funding (eligible programs by 10% in 2019–20) and to maintain tuition fees for eligible programs at that level for the 2020–21 academic year. Recently, Ontario extended the domestic tuition fee freeze for an additional year (i.e., the 2021–22 academic year).

International student fees are not regulated by the Province and are generally set to recover the full costs of international student enrollment.

Exhibit 5 Average Undergraduate Tuition Fees (2020–21)



Source: Statistics Canada.

Donations and Investment Income (12.7%)

Unrestricted donations and investment income, recognized on the statement of operations, typically represent around or less than10% of the University's total revenue. This primarily consists of investment income earned on operating reserve balances throughout the year. Earnings on restricted endowments are recognized as a change in net assets and are not captured on the statement of operations until they are spent, at which point they are reported as part of grants and other revenues for restricted purposes.

Given its reputation and long history, U of T benefits from a large alumni base and consistently introduces well-established fundraising programs. In 2020–21, the University raised $445 million in pledges and gifts ($406 million) and philanthropic research grants ($39 million).

Statement of Financial Position (Adjusted)

($ thousands)			As at April 30		
Assets	**2021**	**2020**	**2019**	**2018**	**2017**
Cash and short-term investments	1,269	1,223	2,017	1,484	1,423
Accounts receivable	173	219	114	78	90
Inventories and prepaid expenses	50	33	22	22	22
Long-term investments	5,680	4,195	3,242	3,337	3,135
Capital assets	5,210	5,057	5,009	4,890	4,473
Other assets	-	-	-	83	62
Total Assets	**12,382**	**10,727**	**10,404**	**9,894**	**9,205**
Liabilities and Net Assets					
Liabilities					
Accounts payable & accrued liab.	600	434	455	458	395
Deferred contributions	907	700	627	616	557
Employee future benefit obligations (excl. pension)	696	644	625	591	594
Accrued pension liability	127	606	308	319	296
Deferred capital contributions	1,269	1,203	1,228	1,254	1,190
Total debt	709	709	711	713	716
Total Liabilities	**4,308**	**4,296**	**3,954**	**3,951**	**3,748**
Net Assets					
Unrestricted net assets	(144)	(124)	(162)	(68)	(59)
Internally restricted net assets	5,068	4,045	4,019	3,507	3,136
Endowment – internally restricted	448	377	383	375	359
Endowment – externally restricted	2,702	2,133	2,210	2,129	2,021
Total net assets	8,074	6,431	6,450	5,943	5,457
Total Liabilities and Net Assets	**12,382**	**10,727**	**10,404**	**9,894**	**9,205**
Contingencies and Commitments					
Construction & renovation in progress	1,300	917	576	410	424
Rental leases	200	204	191	150	150
Operating leases	6	9	9	9	8
Loan guarantees	12	10	9	8	8
	1,518	**1,140**	**785**	**577**	**590**

Note: U of T's financial statements exclude the federated universities and research administered at the affiliated hospitals.

Statement of Operations (Adjusted)

($ thousands)	For the year ended April 30				
	2021	**2020**	**2019**	**2018**	**2017**
Revenues					
Tuition fees	1,787	1,572	1,481	1,344	1,204
Other student fees	208	241	247	239	227
Government grants for operations	723	719	727	723	713
Other grants for restricted purposes	507	463	469	413	418
Investment income	384	178	205	180	220
Sales, services, and sundry income	268	368	362	352	333
Donations [1]	122	85	102	128	101
Total Revenues	**3,999**	**3,626**	**3,593**	**3,379**	**3,216**
Expenses					
Salaries and benefits	1,969	1,934	1,821	1,717	1,669
Materials and supplies	255	233	222	227	218
Student aid	279	259	255	239	217
Repairs and maintenance	141	131	135	118	115
Cost of sales & services	85	113	117	113	106
Utilities	47	50	49	56	63
Amortization	207	201	189	178	165
Interest	38	38	38	38	38
Other expenses	252	226	262	228	208
Total Expenses	**3,273**	**3,185**	**3,088**	**2,914**	**2,799**
Operating Surplus (deficit), as Reported	**726**	**441**	**505**	**465**	**417**
Capital Expenditures	**315**	**254**	**331**	**576**	**284**

Note: U of T's financial statements exclude the federated universities and research administered at the affiliated hospitals.

1 Excludes externally restricted donations to endowment funds because the endowment principal is unearned and is required to be maintained intact in accordance with the University's preservation of capital policy.

Calculation of Free Cash Flow (Adjusted)

($ thousands)	For the year ended April 30				
	2021	**2020**	**2019**	**2018**	**2017**
Operating balance as reported	726	441	505	465	417
Amortization, net of loss on disposal	207	201	189	178	165
Other noncash adjustments	(498)	(281)	(290)	(282)	(286)
Cash Flow from Operations	**435**	**361**	**404**	**361**	**296**
Change in working capital	357	(59)	1	115	116
Operating Cash Flow after Working Capital	792	302	405	476	412
Net capital expenditures [1]	(171)	(201)	(210)	(459)	(171)
Free Cash Flow	**621**	**101**	**195**	**17**	**241**

1 Gross capital expenditures less donations and grants received during the year for the purchase of capital assets.

Summary Statistics (Adjusted)

	For the year ended April 30				
	2020	**2020**	**2019**	**2018**	**2017**
Total Students (FTEs)	84,807	82,311	80,652	79,262	78,291
Undergraduate (%)	77	77	77	78	79
Graduate (%)	23	23	23	22	21
Annual change (%)	3.0	2.1	1.8	1.2	1.5
Enrollment (Headcount)	95,055	93,081	91,286	90,077	88,766
Domestic (%)	73	75	77	79	80
International (%)	27	25	23	21	20
Total Employees (Headcount)	16,964	16,204	15,680	15,715	15,204
Academic staff [1]	9,334	9,230	8,873	8,898	8,564
Operating Results					
Surplus (deficit; $ millions)	726	441	505	465	417
- As % of revenues	18.2	12.2	14.1	13.8	13.0
- As % of revenues (five-year rolling average)	14.2	12.0	11.6	10.3	8.7
Revenue Mix					
Government funding (federal and provincial; %)	28.5	30.3	29.5	30.8	32.2
Student fees (%)	49.9	50.0	48.1	46.8	44.5
Ancillary (%)	6.7	10.1	10.1	10.4	10.4
Donations and investment income (%)	12.7	7.3	8.5	9.1	10.0
Other (%)	2.3	2.3	3.8	2.8	3.0
Debt and Liquidity					
Total long-term debt ($ millions)	709	709	711	713	716
- Per FTE student ($)	8,360	8,614	8,816	8,995	9,145
Long-term debt, contingencies, & commitments ($ millions)	3,172	3,099	2,429	2,200	2,196
- Per FTE student ($)	37,403	37,650	30,117	27,756	28,049
Interest costs as share of total expense (%)	1.2	1.2	1.2	1.3	1.4
Interest coverage ratio (times)	12.4	10.5	11.6	10.5	8.8
Expendable resources ($ millions)	2,067	2,016	1,744	1,480	1,479
As a share of long-term debt (%)	292	284	245	208	207
Endowments (Market Value)					
Total market value ($ millions)	3,150.0	2,510.0	2,593.0	2,504.0	2,380.0
Per FTE student ($)	37,143	30,494	32,150	31,591	30,399
Payout ratio (%)	3.8	3.5	3.5	3.6	3.9
Annual return on assets (%)	24.2	-1.5	5.2	6.7	15.4

1 Includes part-time staff and teaching assistants.

Rating History

Issuer	Debt	Current	2020	2019	2018	2017	2016
University of Toronto	Issuer Rating	AA	AA	AA	AA	AA	AA
University of Toronto	Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA

Related Research

- *Rating Public Universities*, May 5, 2021.
- *DBRS Morningstar Canadian University Peer Comparison Table*, June 21, 2021.
- *Corporate Risk Assessment Scorecard for Public Universities,* June 21, 2021.

Previous Report

- Toronto, University of: Rating Report, August 6, 2020.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com. Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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