UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

FOR INFORMATION **PUBLIC** **OPEN SESSION**

TO:	Business Board
SPONSOR:	Trevor Rodgers, Chief Financial Officer
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PRESENTER:	Trevor Rodgers, Chief Financial Officer
CONTACT INFO:	416-978-2065, trevor.rodgers@utoronto.ca
DATE:	January 24, 2024 for January 31, 2024
AGENDA ITEM:	4

ITEM IDENTIFICATION:

Debt Strategy - Annual Review December 31, 2023

JURISDICTIONAL INFORMATION:

Pursuant to Section 5 (1.) (b.) of the Business Board Terms of Reference, the Business Board has responsibility for reviewing regular reports on matters affecting the finances of the University and on financial programs and transactions.

GOVERNANCE PATH:

1. **Business Board [For Information] (January 31, 2024)**

PREVIOUS ACTION TAKEN:

The borrowing strategy was initially approved by Governing Council in June 2004. A revision of this debt strategy was approved in November 2012 followed by an amendment in April 2023. The latest annual review was presented on February 1, 2023.

HIGHLIGHTS:

The debt strategy approved by Business Board in November 2012 established a single debt policy limit including both internal and external debt, with fungibility between them. The debt policy limit amendment in April 2023 revised the maximum debt burden ratio (debt service cost divided by total expenditures) to 6%, and introduced the recognition of indirect debt exposure into the debt limit. The 0.8 viability ratio (total expendable resources divided by total debt) taken into consideration in setting that debt policy limit remains unchanged. The purpose of this report is to assess the continued prudence and effectiveness of this debt strategy.

At April 30, 2023, the maximum 6% debt burden ratio resulted in a total debt policy limit of $2,558 million. The associated viability ratio with this debt policy limit was 2.5, which is higher (better) than the desired lower threshold of 0.8. Of the $2,558.3million, $1,064.8 million is set to be issued from internal sources with the remaining $1,493.5 million to be obtained from external debt which includes indirect debt exposure of $30.5 million. We have assessed the financial health of projects funded via external partnerships and are not recommending any changes to the indirect debt provision at this time.

Actual outstanding debt at December 31, 2023 was $912.7 million, of which $177.4 million was internal and $735.3 million was external. At December 31, 2023, $1,839.5 million of borrowing room has been allocated to capital projects and other requirements that have been reviewed by the Business Board, leaving $718.8 million ($2,558.3 million less $1,839.5 million) for future debt to finance projects under active consideration but not yet brought forward to the Business Board for approval.

Future capital projects under consideration will require approximately $1,088 million of borrowing room, inclusive of indirect debt exposure related to the Site 1 Gateway and Schwartz-Reisman Phase 2 projects. The future borrowing requirement of $1,088 million is $369.2 million above what is currently available for allocation in 2023-24. Timing, cost, and funding of outer year projects are reviewed and updated annually. If every project comes forward for approval as planned, total allocations will reach approximately $3.0 billion, with actual outstanding debt of $2.5 billion by 2028-29. Based on planned growth in the University's financial resources, the maximum debt policy limit, determined using a 6% debt burden ratio, is projected to grow by an additional $808 million to $3,366 million over the next five years to April 30, 2029, sufficient to meet the projected borrowing needs.

Although our analysis based on the current estimated timing of capital projects shows that the debt policy limit would deliver enough debt to support the University's capital needs, there will be limited capacity to borrow additional funds from internal sources in future years. Sensitivity analysis shows that further increases in interest rates or slower growth in University expenditures would negatively affect this projection and would lower the debt limit. There also remains significant uncertainty given construction cost inflation in the GTA.

In view of the rising interest rate environment, we have assumed a 6.0% borrowing rate for future debt. The 6.0% assumption is 100 bps higher than borrowing rates of recent debt issued by some Canadian universities, building in a margin for future rate increases. If future borrowing costs are in the range of 5% to 7%, the debt limit will reach $3,199M to $3,576M by 2029. This assumes modest budget growth per the long-range plan to increase capacity for debt service. For each $10 million reduction in total expenditures, the debt policy limit would decline by $7 million on average annually over the next 5-year period.

To assess the prudence of the debt policy, the University benchmarks actual and planned external debt and key financial ratios to those of selected Canadian universities and to Moody's U.S. Public College and University Medians. Compared to selected Canadian universities at April 2023, U of T had lower debt service costs and higher expendable resource ratios than most of its peers. Compared to U.S. universities at April 2022, U of T had lower debt service cost and higher spendable cash and investments to debt than the median of universities with our same credit rating.

The current debt strategy has been in place for over ten years. This report on the functioning of the strategy demonstrates that, provided interest rates remain relatively stable and provided the University grows as expected, it will deliver sufficient debt capacity to meet the borrowing needs for the highest priority capital projects that are currently under active consideration. Inflation in the construction market and continuing high interest rates would put pressure on available borrowing capacity in the outer years of the plan.

In view of the above, and due to the potential pressure on available debt capacity for allocation from internal sources in future years, outer year capital plans are regularly updated and reviewed by the President and Provost in the context of the University's long range financial plan. A flexible multi-year capital plan allows the University to respond to changing circumstances by reviewing priorities and timing of planned projects.

FINANCIAL IMPLICATIONS:

None

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *Debt Strategy - Annual Review December 31, 2023*

Annual Debt Strategy Review 2023-24

December 31, 2023

University of Toronto Financial Services

UNIVERSITY OF TORONTO

DEFY GRAVITY

Agenda

1. Baseline: Current Debt and Approved Allocations
2. Capital Plans and Future Borrowing Needs
3. Forecast: Financial Impact Assessment

1 | Baseline: Current Debt and Approved Allocations

Debt Policy Summary

Policy Limits

- Debt limit based on affordability, determined by a debt burden ratio of 6% of the University’s consolidated expenses
- Limit can be moderated when necessary to reflect overall debt exposure based on a viability ratio of 0.8
- No more than 40% of expendable funds can be used for internal borrowing; current plan assumes no more than 25% of EFIP used for this purpose

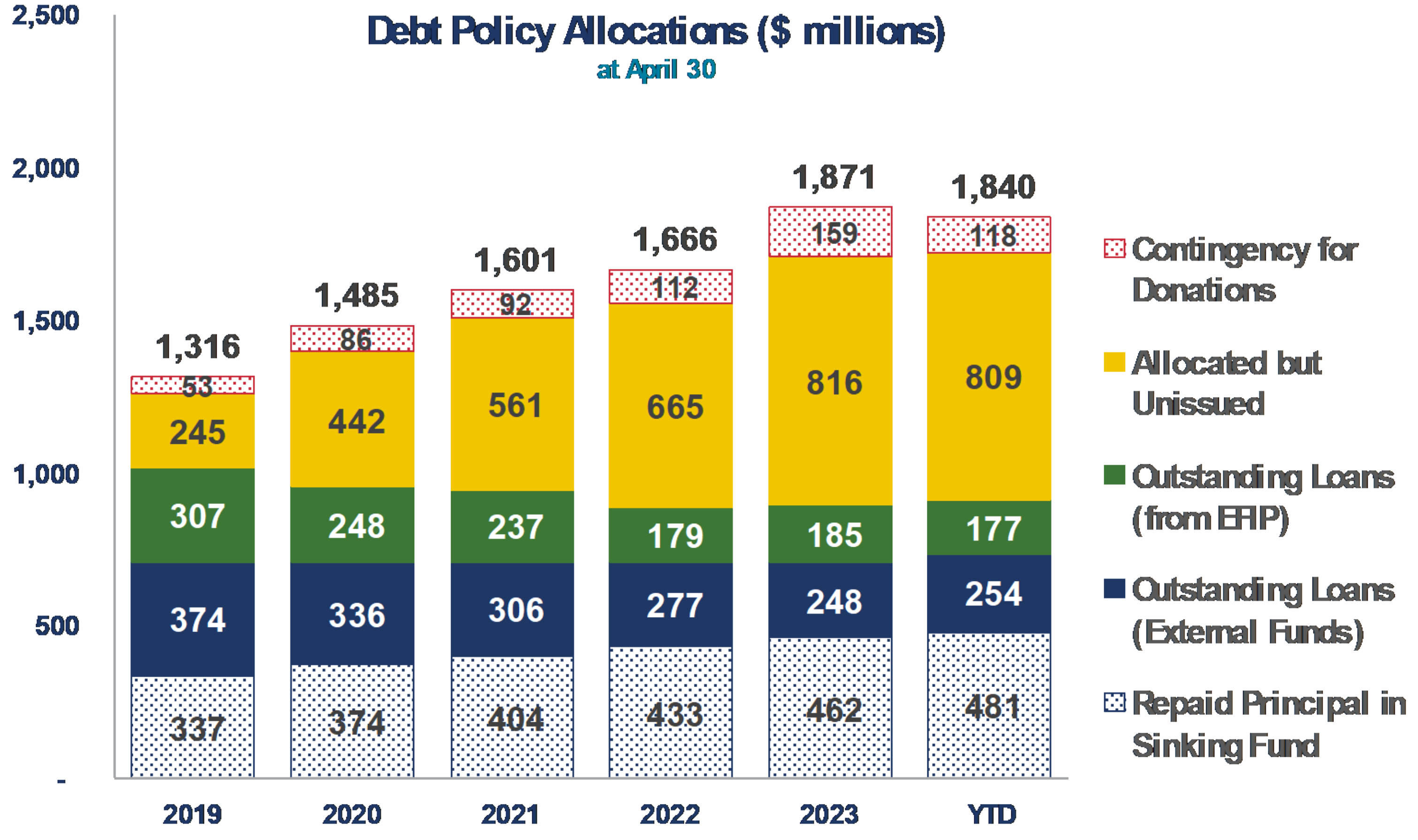
What is included?

- Direct external debt (funds borrowed from third party lenders, on balance sheet as long-term liabilities)
- Direct internal debt (funds borrowed from the Expendable Funds Investment Pool, on balance sheet as deficit in net assets)
- Indirect debt exposure through partnerships or joint venture arrangements (not on balance sheet, but potential for financial or reputational liability)
- Provision for donation targets, pledges, and capital grants not yet in hand
- Capital leases (currently nil)

What is excluded?

- Short-term construction financing arrangements using internal funds
- Short-term and medium-term fund deficits where there are approved plans to address shortfalls (e.g. in multi-year operating or ancillary budget plans)
- Balance in the voluntary sinking fund is not netted against outstanding debt and does not increase amount available for borrowing
- Long-term operating leases

Debt Allocations - History



- The Debt Policy limit includes current debt plus a provision for future borrowing. At April 30/23, the debt limit is set at $2,558 million based on a maximum 6% debt burden ratio.
- Actual debt outstanding is $913 million, equivalent to a debt burden ratio of 2.1%. The associated viability ratio is 5.0x, which is above the minimum requirement of 0.8x. Both ratios indicate that the University's debt burden is prudently managed with a financially healthy position.
- The Business Board has allocated $927 million of additional borrowing room for ongoing projects, bringing the maximum approved debt exposure to $1,840 million (gross of sinking fund and fundraising contingencies).

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Current Debt Allocations (at Dec 31, 2023)

Outstanding Debt $913M

Annual P&I $76M

- Outstanding External Loans $254M
- Repaid Principal in Sinking Fund $481M
- Outstanding Internal Loans from EFIP $177M

Future Allocations $927M

Max P&I @6% $72M

- Approved Capital Projects $777M
- Contingency for fundraising $118M
- Indirect Debt Provision $32M

EXISTING EXTERNAL DEBT

- $710m in debentures issued 2001 to 2011 to finance 76 capital projects
- Fixed interest rates: 4.25% - 6.78%, maturity: 2031 to 2051
- Principal balance outstanding includes $229M in loans from debenture proceeds plus a $25M mortgage assumed for CampusOne acquisition
- Voluntary paid-up sinking fund: $579M, including $481M of repaid principal

EXISTING INTERNAL DEBT

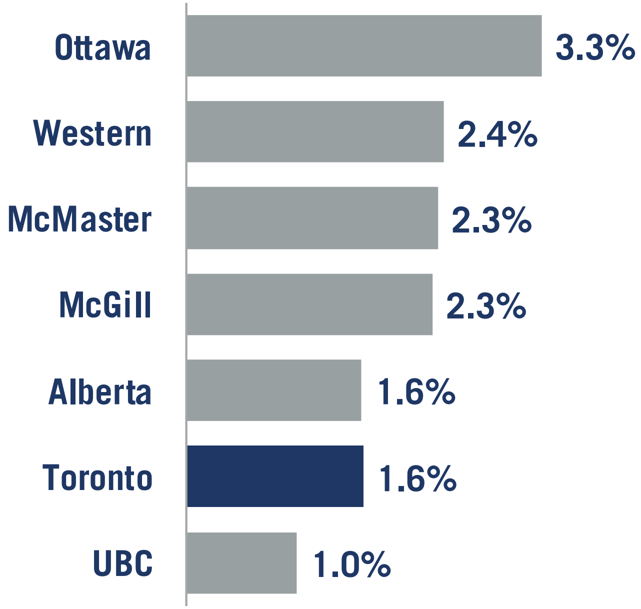
- 26 internal loans with $177M outstanding balances
- Average interest rate: 4.9% (all fixed); average term to maturity 15 years

FUTURE ALLOCATIONS

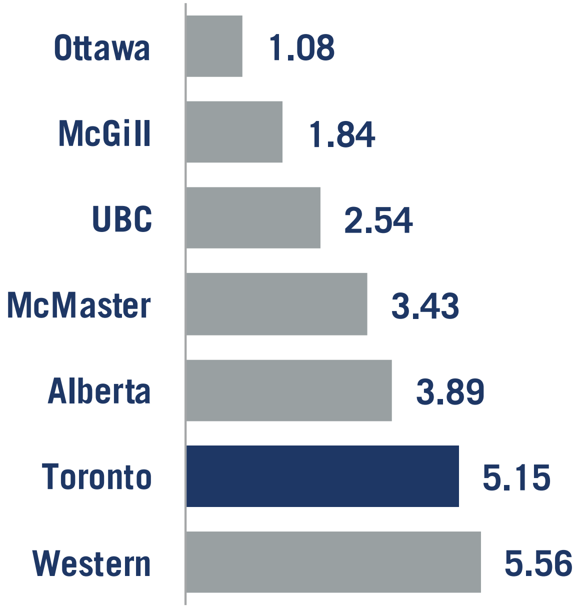
- 27 projects with Business Board approval for borrowing of up to $927M
- Includes $32M of indirect debt exposure from 2 joint venture partners
- Contingency of $118M for projects with donation targets and pledges
- Construction financing excluded until term loan issued & repayment begins

Benchmarking – Canadian Peers

Debt Burden Ratios Based on Actual External Debt Only
as at Balance Sheet Date 2023



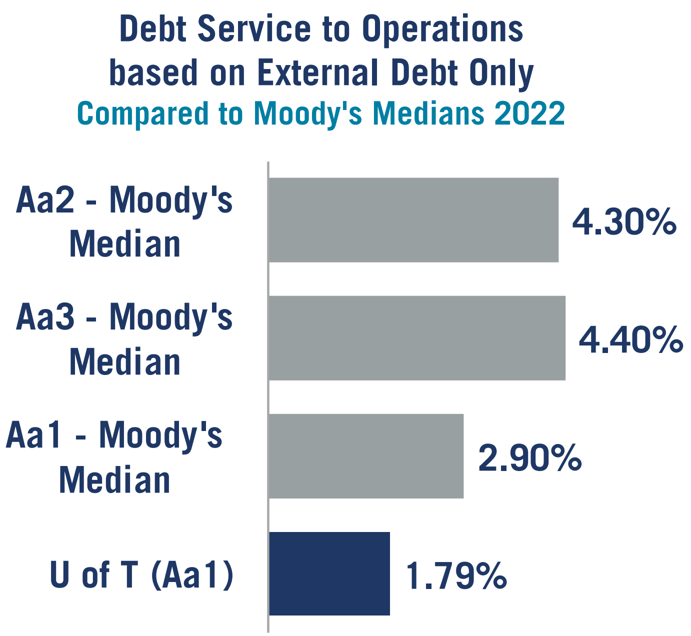
Viability Ratios Based on Actual External Debt Only
as at Balance Sheet Date 2023

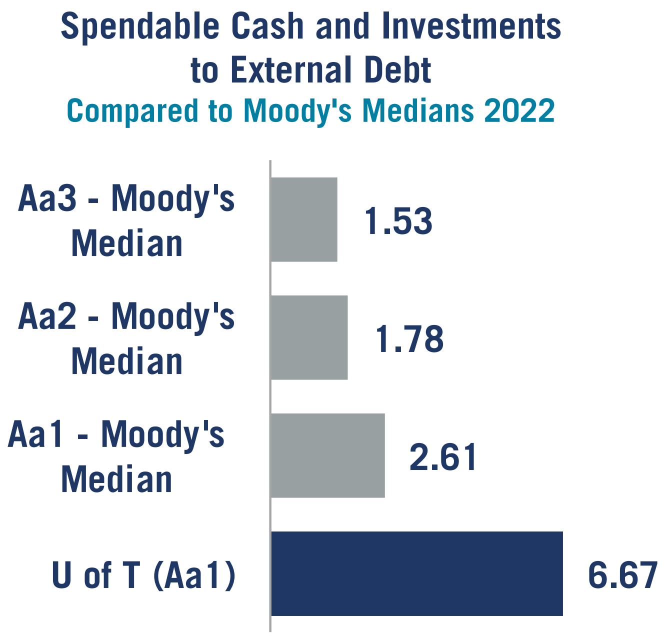


*Based on published financial statements, adjusted for comparability. Includes external debt only, as Information on internal debt is not publicly disclosed by all peers.
Portion of McGill's debt which is secured by the Government of Quebec is excluded.

- At April 2023, U of T's external debt burden ratio was below all selected peer universities, except for UBC.
- In recent years, Canadian universities have increased their reliance on debt financing, while U of T has not issued significant external debt since 2011, which is reflected in these ratios.
- U of T also has a consistently higher ratio of expendable resources to external debt than most Canadian peers, except for Western University in 2023.

Benchmarking – Select US Peers





* Based on Moody's "U.S. Public College and University Medians (fiscal 2022)". The University of Toronto is not included in this report.

- When comparing U of T to U.S. universities, we see that U of T's debt burden ratio is lower than universities with similar investment grade rating categories.
- Among US Peers, there are 14 universities at the Aa1 rating level, 22 universities at the Aa2 level, and 43 universities at the Aa3 level. At each rating level, the median university ratio is displayed. Only external debt is considered.

Credit Ratings comparison (as at January 2023)

- The University of Toronto continues to maintain excellent credit ratings in comparison to our peers. We are currently rated Aa1 by Moody's and AA+ by S&P, with stable outlook.
- The University of Toronto is rated 2 notches higher than the Province of Ontario.
- Credit rating agencies base their assessment on a forward-looking financial forecast of operating revenues, expendable resources, and anticipated new debt.

University	Country	Moody's	S&P
Province of Ontario	Canada	Aa3	A+
University of Toronto	Canada	Aa1	AA+
University of British Columbia	Canada	Aa1	AA+
Queen's University	Canada	-	AA+
University of Western Ontario	Canada	-	AA
McMaster University	Canada	-	AA
University of Ottawa	Canada	Aa2	-
McGill University	Canada	Aa2	AA-
University of Washington	USA	Aaa	AA+
University of Pittsburg	USA	Aa1	AA+
University of California	USA	Aa2	AA
Ohio State University	USA	Aa1	AA
University of Illinois	USA	Aa2	A
University of Minnesota	USA	Aa1	AA

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2 | Capital Plans and Future Borrowing Needs

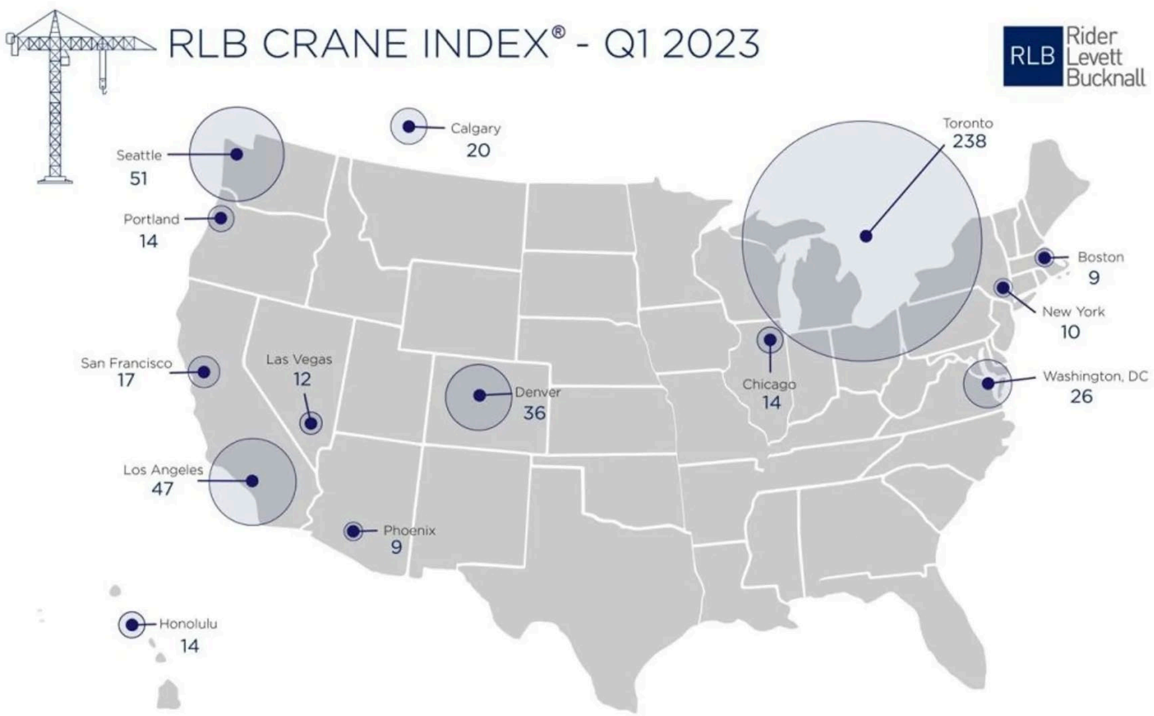
5-year Capital Plan

$4.1B
TOTAL SPEND

15% | Cash Reserves
35% | Future Cash Contributions
25% | Donations, Gov't, Partnerships
25% | Debt (internal & external)

- The University's debt strategy primarily supports its capital expansion program. In assessing the appropriateness of a debt strategy, we consider the need for debt together with the need to remain affordable, and for debt servicing to continue to be financially responsible and prudent.

- Rapid inflation on construction costs in recent years has increased the cost of many projects and requires an on-going careful review of priorities and timing of planned projects.



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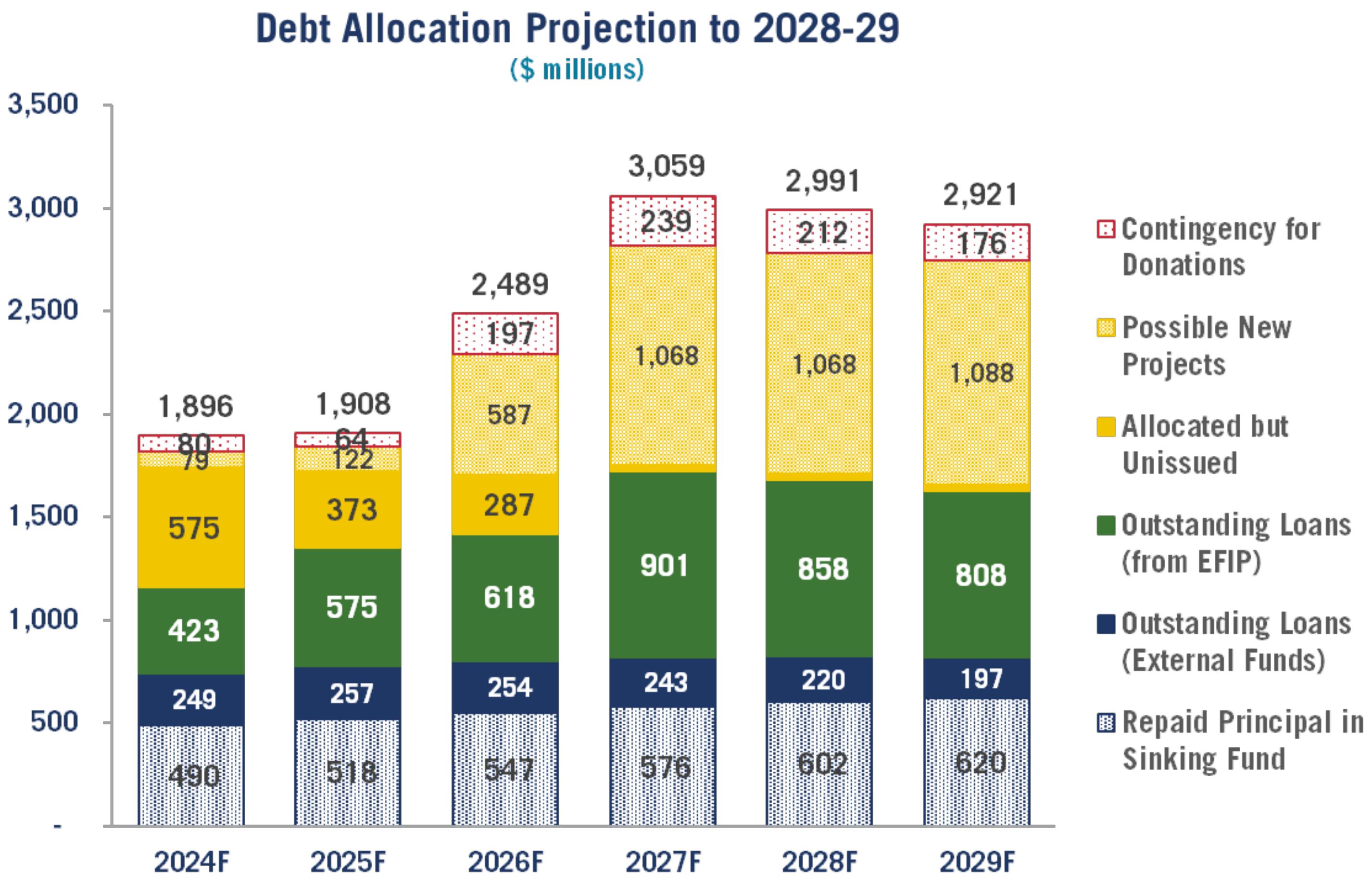
Future Borrowing Needs



- Capital projects under consideration include assumptions of up to $1,088M of additional borrowing, including indirect debt exposure related to the Site 1 Gateway and Schwartz-Reisman Phase 2 projects. Timing, cost, and funding of outer year projects are reviewed and updated annually.
- If <u>every project comes forward</u> for approval as planned, total allocations will reach $2,921M, with actual outstanding debt of $2,532M by 2028-29. Of that amount, external debt will be relatively flat at $817M.

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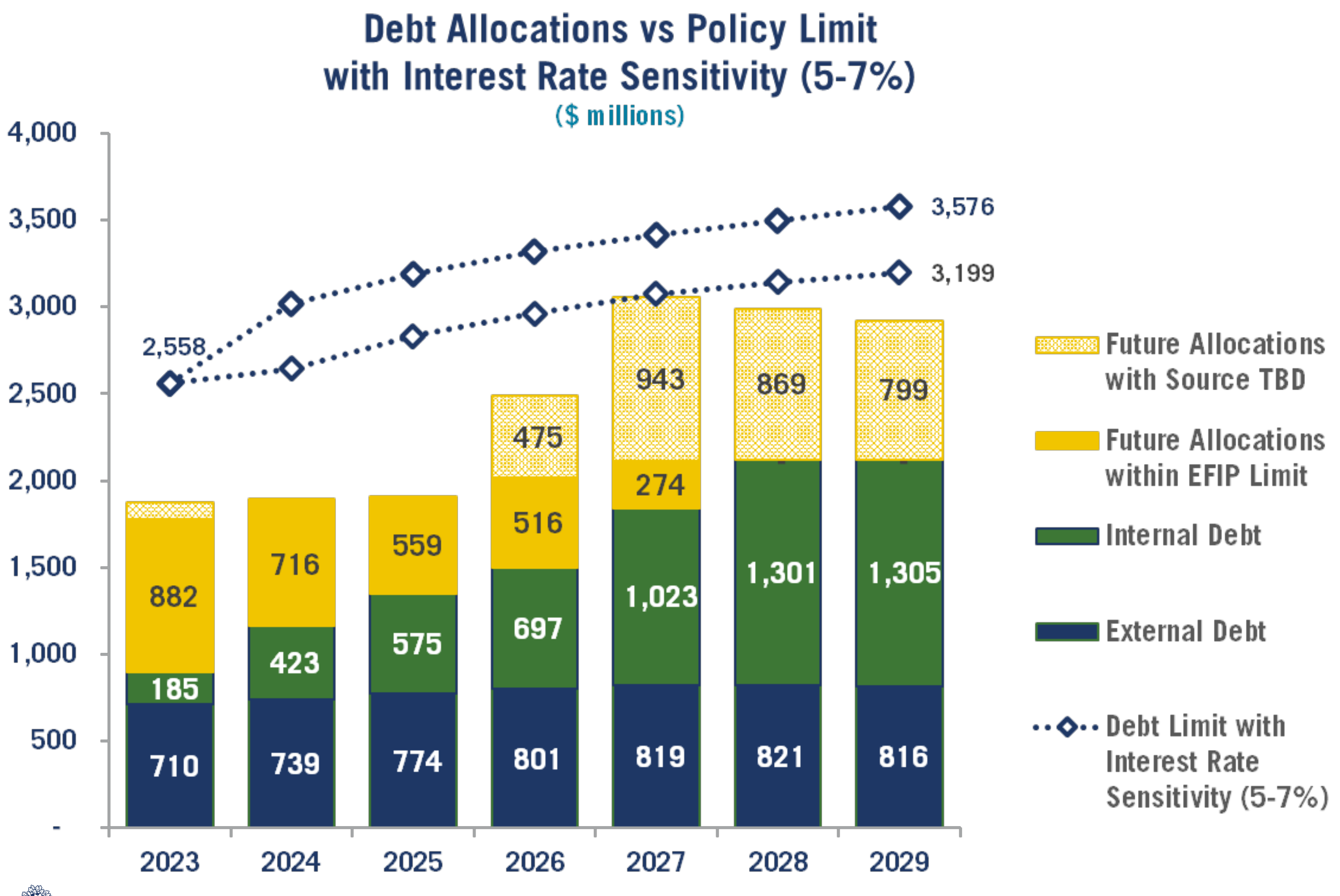
Policy Limit vs Borrowing Needs



- If future borrowing costs are in the range of 5-7%, the debt limit will reach $3,199M to $3,576M by 2029. This assumes modest budget growth per the long-range plan to increase capacity for debt service.
- The rate of growth in EFIP is expected to moderate with inflationary pressures and capital expenditures, flattening the amount of capital available for internal financing.
- In addition, for each $10 million reduction in total expenditures, the debt policy limit would decline by $7 million on average annually over the next 5-year period.
- Although the debt policy delivers enough capacity to support the University’s capital needs over the next five years, **there will be limited capacity to borrow additional funds from internal sources in future**.

3 | Assessing Financial Impact

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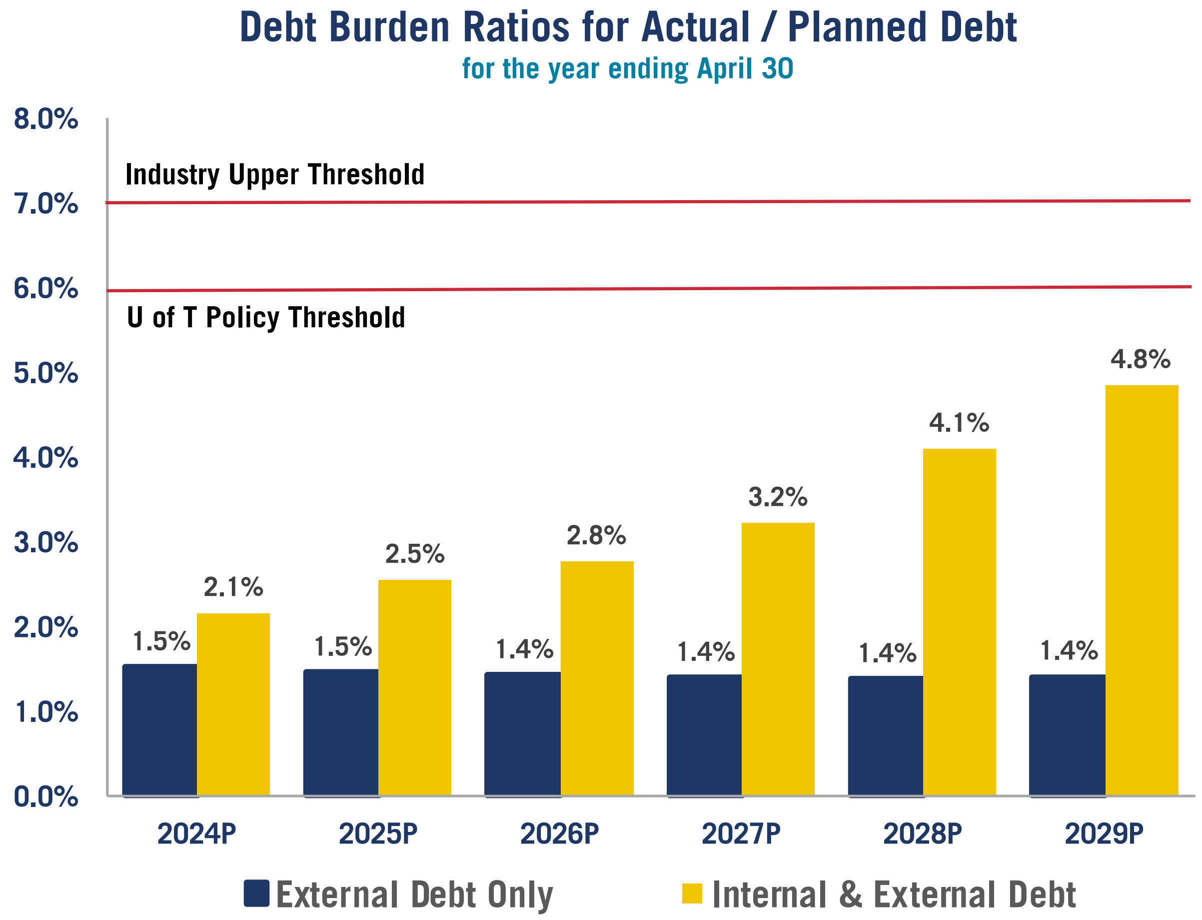
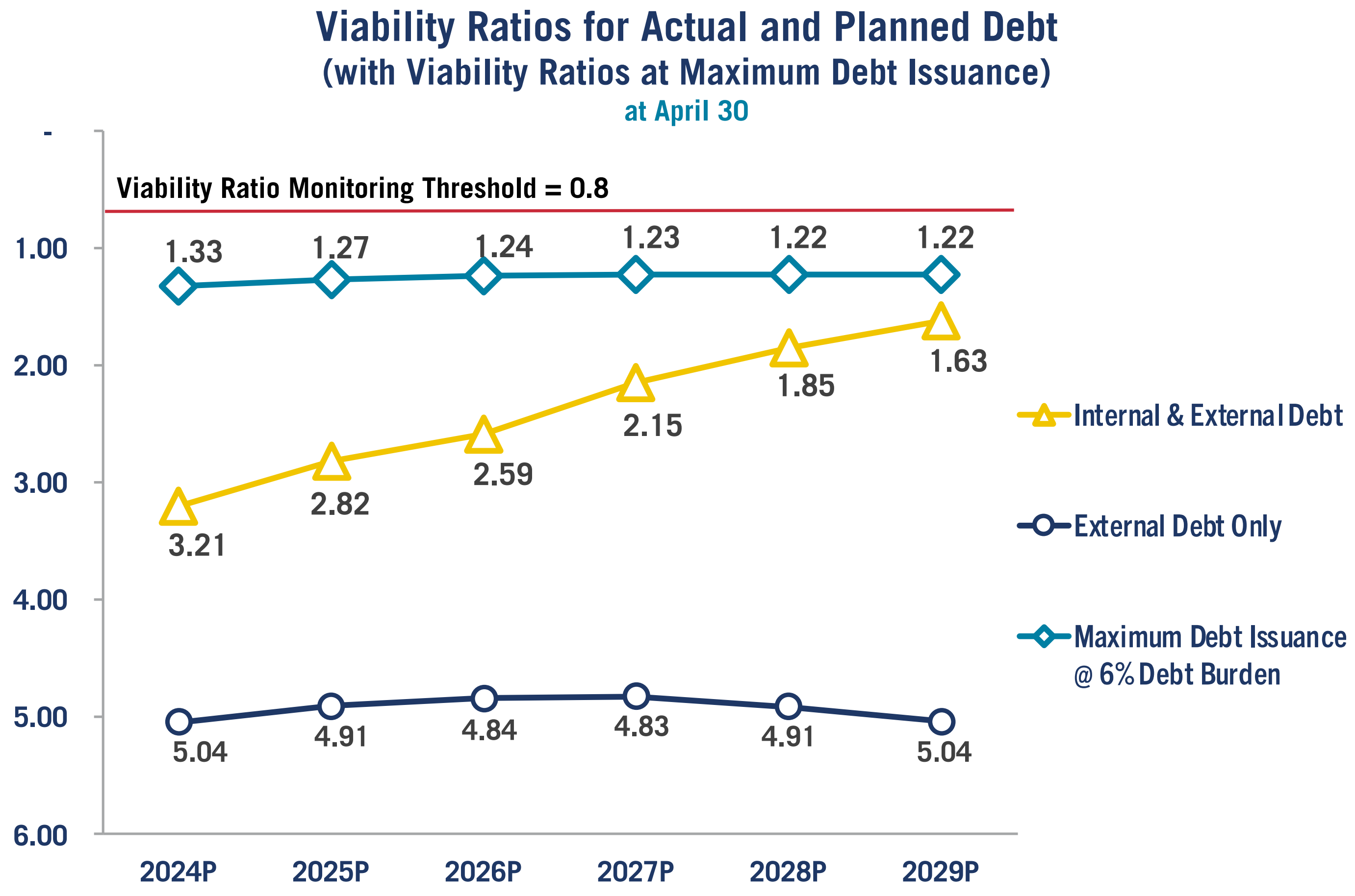
DEFY GRAVITY

Debt Affordability – Income Statement Approach



- The debt strategy sets the acceptable debt burden ratio (P&I / total expenditures) at 6%, including a provision for debt service on borrowing that has been approved but not issued.
- Based on projected expenditures and debt service costs, including actual debt issued, planned debt on approved projects, and future capital project assumptions, the projected debt burden ratios may increase to 4.8% but will remain below the 6% policy limit.

Debt Capacity – Balance Sheet Approach



- Debt capacity is the amount that can be borrowed based on the expendable funds available to repay. It is measured via the viability ratio (expendable resources / debt). The debt strategy identifies a viability ratio of 0.8 as a lower threshold that balances our financial, operating, and capital expansion objectives.

- The viability ratio for actual and planned debt is expected to be better than the threshold of 0.8 for all the years being forecasted. Therefore, we do not anticipate a need to adjust the debt limit based on overall capacity.

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MCU Financial Accountability Framework (Actuals and Projections)

MCU Financial Accountability Framework

Sustainability	2023A	2024F	2025F	2026F	2027F	2028F	2029F
Viability Ratio	4.6	4.7	4.4	4.3	4.3	4.4	4.5
Debt Ratio	25%	24%	27%	28%	30%	31%	33%
Debt to Revenue Ratio	17%	16%	17%	17%	17%	17%	17%
Interest Burden Ratio	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%

* Refer to Appendix for details of MCU risk metric definitions and thresholds

- The MCU Framework considers only external debt, and therefore excludes the portion of debt funded internally from our expendable funds.
- The MCU sustainability ratios for the next 5 years are projected to remain in the low-risk category.

Conclusion

- The current debt policy provides sufficient borrowing room for the highest priority capital projects under active consideration. However, inflation in the construction market and continuing high interest rates would put pressure on available borrowing capacity in the outer years of the plan.

- An increase in the debt limit is predicated on planned growth in the operating budget, providing greater capacity for debt service. Outer year capital plans are regularly updated and reviewed by the President and Provost in the context of the University’s long range financial plan. A flexible multi-year capital plan allows the University to respond to changing circumstances by reviewing priorities and timing of planned projects.

A | Appendices

Appendix: Definitions used for Debt Policy Limit

- **Debt** includes all long-term external and internal borrowed funds obtained by any means (e.g. debentures, bank loans) and excludes letters and lines of credit and all short-term and medium-term internal financing for purposes such as construction financing and fund deficits.
- **Indirect Debt** includes off-balance sheet debt such as long-term debt obtained through a limited partnership arrangement that is not recorded in the University's balance sheet but exposes the University to a potential financial liability.
- **Debt burden ratio**, key determinant of debt policy limit, equals interest plus principal divided by total expenditures.
- **Debt policy limit** is the maximum debt that can be taken on based on a debt burden ratio of 6%.
- **Viability ratio**, be taken into consideration in setting debt policy limit, equals expendable resources divided by external debt as per policy. The debt strategy has set a preference of a viability ratio of 0.8 or greater.
- **Allocations** are all borrowings approved by Business Board, including indirect debt plus contingency for donations pledges.
- **Actual debt outstanding** is the sum of actual internal loans issued, actual external debt issuance and indirect debt.

Appendix: Provincial MCU Risk Metric Thresholds

University Financial Accountability Framework: Technical Manual		
Date: 2023-09-20	**Version: 1.1**	

Category	Metric	Metric Definition	Metric Scale From Left To Right	Medium Threshold More ← Favorable	High Threshold Less Favorable →
LIQUIDITY	Primary reserve days	(Expendable net assets / Total expenses) x 365 days	Descending	90 days	30 days
	Working capital ratio	Current assets / Current liabilities	Descending	1.25	1
SUSTAINABILITY	Viability ratio	Expendable net assets / Long-term debt	Descending	60%	30%
	Debt ratio	Total liabilities less deferred capital contribution / Total assets	Ascending	35%	55%
	Debt to revenue ratio	Long-term debt / Total revenue	Ascending	35%	50%
	Interest burden ratio	Interest expense / Total expenses less amortization	Ascending	2.0%	4.0%
PERFORMANCE	Surplus (deficit) ratio	Surplus (deficit) / Total revenue	Descending	1.5%	0%
	Net operating revenues ratio	Cash flow from operations / Total revenues	Descending	7%	2%

UNIVERSITY OF TORONTO

S&P Global Ratings

RatingsDirect®

Research Update:

University of Toronto Ratings Affirmed At 'AA+'; Outlook Is Stable

December 13, 2023

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Overview

- We expect that the University of Toronto (UofT) will maintain its leading market position, sustaining robust student demand.
- This in turn will allow the university to continue generating positive operating margins and maintain very high liquidity and a stable debt burden.
- Therefore, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on UofT.
- The stable outlook reflects our view that UofT's financial performance will not weaken materially in the face of rising inflationary pressures and its exceptional liquidity will continue to bolster its credit profile.

Rating Action

On Dec. 13, 2023, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on the University of Toronto, in the Province of Ontario.

Outlook

The stable outlook reflects our expectation that, within our two-year outlook horizon, UofT will generate positive operating margins supported by its exceptional market position and maintain very high liquidity and a stable debt burden, 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, decreased 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 methodology. Although 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 revise our assessment of UofT's stand-alone credit profile (SACP) upward in the next two years if the provincial government relaxed its restrictions on tuition increases, while maintaining operating grants, resulting in greater financial flexibility and metrics in line with those of 'AAA' rated peers. However, this would not directly result in an upgrade of our issuer credit rating on UofT, given our three-notch cap above the rating on the supporting government.

Rationale

The rating reflects UofT's 'aa+' SACP, which is based on our combined assessment of the university's extremely strong enterprise and financial profiles. The rating also reflects our opinion of a moderately high likelihood that the Ontario government could provide extraordinary support in the event of financial distress.

UofT continues to attract solid student demand, helping it generate strong financial results and robust liquidity. We believe that the university will continue these trends despite rising inflationary pressures, generally flat government funding, and a restrictive domestic tuition framework.

Excellent market position and stable demand support enterprise profile

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 high barriers to entry and typically countercyclical nature, which tends to withstand economic downturns better than other sectors. The university also benefits from excellent economic fundamentals in its main service area in the largest city in Canada and the most populous province, which has high GDP per capita, estimated at almost US$54,200 in 2023.

UofT is Canada's largest university, with close to 89,000 full-time equivalent (FTE) students across three campuses in the Toronto area, and the nation's most prominent research institution. In recent years, the university has been the highest-ranked Canadian university in several international surveys, including 21st in the 2024 Times Higher Education World University Rankings. With almost 48% of FTEs coming from outside Ontario and 30% being international students, the university benefits from a geographically diversified student body, although it has some reliance on China and India as source countries.

Fall 2023 saw a 2.7% increase in FTEs and the university has demonstrated consistently healthy student demand, expanding about 10% over five years. Graduate students make up close to 24% of FTEs, which is in line with 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 78%, respectively, in the past several years. UofT's selectivity rate weakened slightly during the pandemic due to uncertainty over enrollment, but we expect it will trend back down.

In our view, UofT's management expertise and governance practices are very strong and in line with those of other highly rated Canadian universities. Academic and operational priorities are guided by the university's strategic plan and strategic mandate agreement with the province. These inform the detailed annual budget and long-range plan, which incorporate operating and capital plans. UofT tracks and reports on sector-standard financial metrics and has formal policies for endowment, liquidity and investments, debt, and reserves that help to adequately mitigate risks.

Solid operating performance and exceptional liquidity underpin UofT's financial profile

In our opinion, UofT has an extremely strong financial profile, bolstered by healthy adjusted operating margins averaging almost 10% in the past three fiscal years. We expect that ongoing inflationary pressures, especially on employee costs, will weigh on operating margins in the next several years, but that they will remain in a healthy surplus buoyed by stable domestic and international demand.

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 through the tuition framework, and enrollment expansion through operating grants, which we do not expect will increase in real terms in the near term.

In January 2019, the government of Ontario imposed a 10% reduction to domestic tuition for the 2019-2020 academic year and a series of freezes through fiscal years 2023-2024. The government is assessing the recommendations in a recent report it commissioned that examined the financial sustainability of the postsecondary sector. Among the recommendations are calls for increases to base per-student funding levels as well as increases to domestic tuition, but we have not factored any increase into our base-case scenario at present.

We believe that the university's long track record of robust liquidity provides a substantial buffer against volatility in financial performance. The university held C$7.71 billion in total cash and investments at the end of fiscal 2023, although 42% of this is held in endowed funds. Total cash and investments have risen steadily over many years and we expect they will remain sufficient to cover about 200% of adjusted operating expenses in the next two years despite escalating cost pressures and internal financing of the capital plan.

In addition, we view UofT's exceptional liquidity, with total cash and investments of about 10x debt outstanding, as sufficient to meet all debt service requirements in the next several years while providing significant safeguard against any reasonable medium-term stress scenario, boosting our view of the university's credit profile.

UofT has superior fundraising capabilities compared with that of other Canadian universities and is in the middle of a 10-year fundraising campaign with an ambitious goal of raising C$4 billion. In addition, it holds the largest endowment of any Canadian university, with a fair value of C$3.27 billion at fiscal year-end 2023.

UofT has a moderate debt burden that we view as very manageable, given its solid operating performance and strong liquidity. At fiscal year-end 2023, total gross debt outstanding was C$709 million, unchanged from the previous year, and we estimate that the university's maximum annual debt service in the next few years will be stable at 1.7% of adjusted operating expenses, which is lower than the median for peers in the 'AA' rating category.

UofT's debt consists of five series of fixed-rate, 30- and 40-year bullet debentures maturing from

2031-2051. The high number of nonamortizing debentures exposes the university to some refinancing risk at maturity and makes its debt structure more aggressive than that of peers with amortizing debt. However, this risk is largely offset by the self-imposed sinking fund that UofT has established to repay these obligations, with assets totaling C$566 million at fiscal year-end 2023.

The university has entered into a financing partnership with the Canada Infrastructure Bank to undertake a host of projects aimed at helping it achieve carbon neutrality. We believe that these projects could result in a modest increase in total debt in the next several years but that they will not have a material impact on our assessment of UofT's debt burden.

We believe that UofT's participation in the jointly sponsored multiemployer University Pension Plan Ontario (UPP) limits the potential future impact of any plan deficits on the university's overall credit profile, given the risk-shared nature of the plan. UofT entered the UPP with a strong financial position on July 1, 2021; it still maintains a small pension benefit plan on its own books with a deficit of about C$136 million, which we believe will have a negligible impact on its finances.

Government-related entity analysis: A moderately high likelihood of extraordinary provincial government support

Although neutral to our rating, we believe there is a moderately high likelihood that the government of Ontario would provide extraordinary support to UofT in the event of financial distress. This view reflects our assessment of UofT's 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 18% of the university's adjusted operating reported revenue in fiscal 2023, 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. 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.

Environmental, Social, and Governance

We analyzed UofT's risks related to environmental, social, and governance factors and found them to be neutral in our credit analysis as a whole. While in our view, the health and safety social risks posed by the pandemic have abated for the higher education sector, given the pandemic's significant effects on modes of instruction and enrollment trends, we believe a future public health event of similar size and scope could again affect demand and finances.

Key Statistics

Table 1

University of Toronto--Key statistics

	--Fiscal year ended April 30--					Medians*
(Mil. C$)	2024bc	2023	2022	2021	2020	2022
Enterprise risk profile						
Full-time-equivalent enrollment (FTE)	88,652	86,297	85,747	84,807	82,311	41,783
Annual FTE change (%)	2.7	0.6	1.1	3.0	2.1	MNR
Selectivity rate (%)	68.4	71.3	71.8	62.2	59.6	73.2
Undergraduates as a % of total enrollment	77.0	76.2	76.3	76.9	76.7	80.2
First-year retention rate (%)	N.A.	91.4	91.1	93.1	92.0	86.8
Six-year graduation rate (%)	N.A.	78.5	77.1	77.1	76.7	71.0
Financial risk profile						
Adjusted operating revenue	4,229	4,025	3,806	3,658	3,480	2,148
Adjusted operating expense	3,943	3,696	3,415	3,352	3,242	2,031
Net adjusted operating margin (%)†	7.3	8.9	11.4	9.1	7.3	3.2
Student dependence (%)	55.3	54.8	55.7	54.5	52.1	37.0
Government operating grant dependence (%)	17.3	17.9	18.9	19.8	20.7	17.3
Endowment and investment income dependence (%)	6.9	7.8	2.1	10.5	5.1	MNR
Cash and investments	7,862	7,706	7,456	6,949	5,418	2,838
Cash and investments to operations (%)	199.4	208.5	218.3	207.3	167.1	115.3
Outstanding debt	709	709	709	709	709	1,142,825
Cash and investments to debt (%)	1,108.9	1,086.9	1,051.6	980.1	764.2	278.4
Maximum annual debt service burden (%)†	1.5	1.7	1.8	1.8	1.9	3.4

bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. *For 'AA' rated U.S. public colleges and universites. U.S. median figures are in U.S. dollars. †As % of adjusted operating expense. N.A.--Not available. MNR--Median not reported.

Ratings Score Snapshot

Table 2

University of Toronto--Ratings score snapshot

Industry risk	2
Economic fundamentals	1
Market position	1
Management & governance	2
Enterprise risk profile	1
Financial performance	2

Table 2

University of Toronto--Ratings score snapshot (cont.)

Financial resources	1
Debt and contingent liabilities	1
Financial risk profile	1
Stand-alone credit profile	aa+
Issuer credit rating	AA+

S&P Global Ratings bases its ratings on not-for-profit education providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Global Non-For-Profit Education Providers," published on April 24, 2023, summarizes how the seven factors are combined to derive each not-for-profit education provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- Criteria | Governments | General: Global Not-For-Profit Education Providers, April 24, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Credit Quality Divergence Continues, December 7, 2023

Ratings List

Ratings Affirmed	
University of Toronto	
Issuer Credit Rating	AA+/Stable/--
University of Toronto	
Senior Unsecured	AA+