

# RatingsDirect®

---

## Research Update:

# University of Western Ontario 'AA' Ratings Affirmed; Off Under Criteria Observation

### Primary Credit Analyst:

Adam J Gillespie, Toronto (1) 416-507-2565; adam.gillespie@standardandpoors.com

### Secondary Contact:

Nineta Zetea, Toronto (416) 507-2508; nineta.zetea@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# University of Western Ontario 'AA' Ratings Affirmed; Off Under Criteria Observation

## Overview

- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on the University of Western Ontario (Western).
- We are removing our Under Criteria Observation designation from the ratings.
- The ratings reflect our assessment of the university's stand-alone credit profile, which reflects our combined assessment of Western's very strong enterprise and financial profiles.
- The stable outlook reflects our expectation that the university will maintain a healthy market position and demand profile, it will continue to generate modestly positive net adjusted margins, and available resources will remain superior.

## Rating Action

On Feb. 26, 2016, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the University of Western Ontario (Western) in London, Ont. In addition, Standard & Poor's removed its Under Criteria Observation designation from the ratings. The outlook is stable.

## Rationale

The ratings on Western reflect the university's stand-alone credit profile (SACP), which Standard & Poor's assesses at 'aa'. The ratings also reflect our opinion of a moderately high likelihood that the Ontario government would provide extraordinary support in the event of financial distress. The SACP on Western reflects our combined assessment of the university's very strong enterprise profile, with a healthy enrollment and demand profile and strong management and governance practices; and its very strong financial profile, with a history of sound financial performance and excellent levels of available resources. In our opinion, a moderate debt burden and the fiscal challenges facing the provincial government that could affect operating grants offset some of these strengths.

In our view, Western continues to have a very strong enterprise profile, with excellent economic fundamentals given Ontario's very strong economy, and a healthy market position and improving demand. In fall 2015, Western had 31,765 full-time equivalent students (FTEs), about 17% of which were graduate students; a ratio that is slightly lower than the most research-intensive

universities in the country, such as McGill University, University of Toronto, and University of British Columbia. The university has planned for a modest increase in FTEs in the next two years, characterized by flat first-year enrolment but robust graduate student growth. First-year applications for fall 2015 were down 0.6% (applications were down in Ontario systemwide, reflecting shifting demographics) and offers rose slightly, resulting in selectivity weakening somewhat. However, average entering grades, retention, and graduation rates continue to improve and are among the highest in the province.

Western generated a very modest adjusted net operating margin (on a fully consolidated basis) in fiscal 2015 of 1.6% of adjusted expenditures, down from an average of more than 6% in the prior three years. This is in line with the fiscal 2014 median for U.S. public universities in the 'AA' category but slightly lower than similarly rated Canadian peer institutions. We expect Western's financial profile will remain very strong in the next two years by the university maintaining abundant financial resources (with available resources in excess of 35% of adjusted operating expenses) and positive adjusted net margins, despite the operating pressures it faces--primarily the tuition framework, potential for flat or even lower government grants, and increasing salaries and benefits expenditures. Although the university expects its debt burden to increase modestly in fiscal years 2017 to 2019, we do not expect the pro forma debt to materially affect its debt metrics; specifically, we expect that available resources will continue to exceed debt outstanding and our estimate of the pro forma maximum annual debt service is a moderate 4% of fiscal 2015 adjusted expenditures.

Founded in 1878, Western is a research-intensive, doctoral university. It is in the southwestern Ontario city of London, which has a population of about 366,000. Western has about 31,800 FTEs on its main campus (and close to 38,000 FTEs with its three affiliated colleges), and is the 10th-largest university in Canada in terms of full-time students (it's the fourth-largest in Ontario). It has 12 faculties and schools, including a school of medicine and dentistry, law, engineering, and business. It also has affiliations with three research institutes, three university colleges, and two teaching hospitals.

In accordance with our criteria for government-related entities (GREs), we base our view of Western's moderately high likelihood of extraordinary government support on 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. Its important role in the province also reflects our view of the university's solid reputation, which Western's very strong student quality and research profile demonstrate. The province's oversight, program approval rights, and tuition regulation over Western suggest a strong link to the university. Also supporting this view is that the province provides substantial operating grants, which account for about a quarter of the university's total revenue, and it appoints four of 28 board members.

Despite the ongoing provincial support, we believe Western operates independently of the Ontario government. It is an autonomous legal entity with ownership of its assets. The board is responsible for overseeing all academic, business, and student affairs. Although Ontario monitors and guides tuition and student aid (through the tuition framework) and enrollment expansion (through operating grants and program approval), the university has the final decision on these matters and on its long-term strategy. In addition, there is no track record of negative intervention from the province. Our ratings on Western are above those on the province, reflecting our estimate that, along with the university's independence with regard to ownership and operations, its financial assets are sufficient such that there is a measurable likelihood that it would not default on its obligations under a provincial stress scenario in which all government funding was temporarily disrupted. Although the Ontario government faces fiscal challenges and projects it will not return to fiscal balance until fiscal 2017-2018, we do not expect provincial operating grants for postsecondary education to diminish significantly, given its vital public policy role.

### **Liquidity**

The university's liquidity is excellent, in our view. At fiscal year-end 2015, Western had almost C\$1.4 billion in cash and investments, equal to over 4x our pro forma debt estimate. Its available resources (internally restricted net assets plus internally restricted endowments) were what we consider high at C\$561 million, or 53% of adjusted total expenditures and 167% of pro forma debt. Although we expect these ratios could be lower in the next two years given weaker investment returns likely in fiscal 2016 and internal financing of capital, we believe they will remain more than sufficient to finance all debt service requirements and provide a sufficient buffer to withstand any likely medium-term stress scenario.

### **Outlook**

The stable outlook reflects Standard & Poor's expectations that, within our two-year outlook horizon, the university will maintain a healthy market position and demand profile; it will continue to generate modestly positive net adjusted margins; and available resources will remain superior. We could revise the outlook to negative or lower the ratings if adjusted net margins weakened to near balance or sustained deficits; available resources eroded to less than 35% of adjusted expenditures or less than 100% of debt outstanding; or the demand profile weakened such that a declining trend in applications and FTEs emerged. Moreover, negative intervention from the province, or a significant reduction in Western's resilience to an Ontario default scenario as our GRE criteria specify could cause us to lower the ratings, potentially to on par with or below that on Ontario, depending on the severity. We do not view a positive rating action as likely in the next two years given the tight operating environment for universities in the province, characterized by limited tuition flexibility, rising compensation expenses, and our expectation of flat provincial operating support; and the modest increase in debt expected

in the next several years.

## Related Criteria And Research

### Related Criteria

- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

### Related Research

- U.S. Public College And University Fiscal 2014 Median Ratios: A Growing Divide Between Ratings Categories, July 10, 2015

## Ratings List

Ratings Affirmed

University of Western Ontario

Issuer Credit Rating

AA/Stable/--

Senior Unsecured

AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2016 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).