DBRS Confirms University of Ottawa at AA, Stable Trend

Bloomberg: DBRS Confirms University of Ottawa at AA, Stable

Industry Group: Public Finance
Sub-Industry: Universities

DBRS has today confirmed the Issuer Rating and Senior Unsecured Debt rating of the University of Ottawa (uOttawa or the University) at AA, both with Stable trends. The credit profile remains sound, reflecting uOttawa’s solid balance sheet, low debt burden, track record of conservative management practices and sound academic profile. However, escalating employee salary and benefit obligations and slowing student enrolment growth have contributed to a significant deterioration in recent operating performance, while the external operating environment remains constrained by government funding reductions and limited fee-setting autonomy.

Financial results in 2012-2013 were notably weaker than in the previous year, with a consolidated deficit of $1.5 million, or 0.2% of revenues, recorded. However, a deficit in the range of $20 million to $25 million is expected in 2013-2014, rising substantially to a projected deficit of $41.2 million in 2014-2015, largely the result of pension-related costs, salary pressures and a stabilization in enrolment after a decade of growth. An updated pension valuation to be filed as of January 1, 2014, will reduce the burden of special deficit payments from $11.9 million to $2.8 million and could result in a lower deficit; however, current service costs of the plan remain elevated. Revenue diversification away from grants and enrolment-based sources has become more crucial to financial sustainability at uOttawa in the context of provincial fiscal restraint, limited fee-setting autonomy under the new tuition framework and the trend toward flat enrolment growth. Long-term debt declined modestly in 2012-2013 to $173.1 million or $3,821 per full-time equivalent (FTE), the lowest among DBRS-rated universities, with interest charges remaining affordable at 1.5% of total revenues. Interest coverage improved slightly and remains solid at 5.8 times, among the highest of DBRS-rated universities.

The University’s 2012-2017 $127 million capital plan comprises two flagship projects, namely the development of a $46.7 million learning centre and library expansion and the $80.1 million consolidation of the Faculty of Health Sciences into new and redeveloped facilities. The timing of the proposed debt financing component of the capital plan is expected to hold debt per FTE below $4,000 through 2015-2016, before rising to a peak of approximately $5,400 per FTE in 2016-2017 should the
University proceed that year with $80 million in external financing, a level still among the lowest of DBRS-rated universities and considered manageable. However, the projected weakening in operating results and additional debt charges associated with new borrowing could push the interest coverage ratio down to the 2.0 to 3.0 times range over the medium term.

The University will need to carefully manage investment in capital infrastructure with the affordability of additional leverage within a tight operating envelope pressured by rising compensation costs. The increased demand on resources accompanying the implementation of the Destination 2020 strategic plan will also prove challenging. Despite a relatively low current debt burden and considerable financial resources, a serious focus on addressing long-term financial sustainability through a mix of cost containment measures and new revenue streams will likely be needed to prevent erosion in uOttawa’s credit profile.

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

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at info@dbrs.com.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

The applicable methodology is Rating Public Universities, which can be found on our website under Methodologies.

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The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

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