DBRS Limited (DBRS) confirmed the University of Ottawa’s (Ottawa or the University) Issuer Rating and Senior Unsecured Debt rating at AA (low) with Stable trends. The University’s credit profile is supported by its strong reputation as a leading research-intensive university, breadth of program offerings and status as Canada’s largest bilingual university. The University also benefits from its location in Canada’s capital and a relatively strong balance sheet.

The University reported a surplus of $48.6 million for the year ended April 30, 2017, which was a significant improvement from the $13.2 million deficit reported in the prior year. The improved result primarily reflects a recovery in investment income – a common trend among universities in 2016-17. The positive result, however, masks underlying weakness in the University’s core operating fund, which remains in a structural deficit position because of weak revenue growth, changing student demand and persistent expense pressures.

The operating outlook is likely to remain challenging for Ottawa. The University’s 2017-18 budget anticipates a smaller consolidated surplus and another operating fund deficit. While the University has begun to address the structural budget deficit, further fundamental adjustments will be necessary through the medium term to return to a sustainable budget position. The University has indicated it will roll out a new budget model over the coming years to improve accountability and incentives and will look to make further budgetary adjustments to address imbalances in faculties and improve the effectiveness and efficiency of administrative and support services.

The University continues to have a relatively strong financial profile among DBRS-rated universities despite the issuance of $200 million in debentures in 2016. The University’s debt-per-full-time equivalent (FTE) rose to $7,932 in 2016-17 from $3,679 the year prior and the ratio of expendable resources to debt fell. Despite this, financial ratios remain strong relative to most DBRS-rated universities and consistent with the rating category. With stable enrolment and tight operating results, DBRS expects the financial ratios to remain around current levels through the medium term.

DBRS expects the ratings to remain stable. A positive rating action is unlikely in the near to medium term. A negative rating action, also unlikely, could result from a sustained deterioration in operating results and the balance sheet.

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.

The principal methodology is Rating Public Universities, which can be found on dbrs.com under Methodologies.

The rated entity or its related entities did participate in the rating process. DBRS had access to the accounts and other relevant internal documents of the rated entity or its related entities.

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For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/225752/highlights.pdf.

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