Rating Report
Concordia University

DBRS Morningstar
December 14, 2020

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Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Trend Change	Stable
Senior Unsecured Debt	A	Trend Change	Stable

Rating Update

DBRS Limited (DBRS Morningstar) changed the trend on Concordia University's (Concordia or the University) Issuer Rating and Senior Unsecured Debt rating to Stable from Positive and confirmed both ratings at "A". The trend change reflects DBRS Morningstar's assessment that the Coronavirus Disease (COVID-19) pandemic has resulted in broad-based deterioration of Concordia's financial risk profile, driven by an increasingly challenging operating environment, deteriorating medium-term operating outlook, and increasing debt. As a result, improvement in the University's credit profile as originally anticipated (as discussed in the press release dated November 13, 2019) is no longer the case.

At the time of the last review, DBRS Morningstar indicated that it would likely upgrade Concordia if the outlook for funding environment and operating results remained favourable. The onset of the pandemic prompted the University to shift to remote learning, negatively affected first-year intake, reduced ancillary revenues, led to increased operating costs, and has had a material negative impact on the medium-term operating and debt outlook for the University.

In 2019–20, Concordia reported a consolidated deficit of $31.3 million, weaker than the $19.8 million loss in the prior year. Growth in tuition revenue and government grants was partly offset by loss of revenue from ancillary services, rental properties, student services, and lower donations and investment income. Although Concordia demonstrated spending prudence, expense growth continued to outpace revenues.

In June 2020, Concordia implemented a revised budget model that integrates operating, capital, and cash budgets, and introduced centralized frameworks for a funding program and a financing plan. The 2020-21 budget forecasts an operating budget deficit of $37.8 million, which includes a net direct adverse financial impact of $20.7 million related to the pandemic.

Operating budget deficits will likely linger over the medium term. In the absence of material new provincial funding, Concordia plans to address any deficits through a combination of cost savings, reserve drawdowns, and external debt. Concordia's 2021—22 budget will attempt to address some of the post pandemic structural challenges over a three year horizon, and will be presented to the Board in May of 2021.

The University's debt burden is set to increase meaningfully in the coming years, with university-supported debt likely to rise by an average 40% over the next three years. Concordia has indicated that it will access debt for both strategic investments and to fund a portion of projected operating deficits over the medium term. This differs from the practice at most other DBRS Morningstar-rated universities where debt financing is only used for capital purposes. DBRS Morningstar estimates University-supported debt-to-full-time equivalent (FTE) will increase to approximately $21,000 by F2023. DBRS Morningstar notes the increase in debt will considerably reduce borrowing flexibility and limit ratings improvement over the medium term.

A combination of a weakened outlook on funding and tuition frameworks, sustained deterioration in operating results and increased debt levels materially beyond current expectation may prompt a negative rating action. A positive rating action is highly unlikely given a challenging operating outlook for the sector in general. However, DBRS Morningstar could consider changing the trend to Positive if the University is able to demonstrate effective deficit-reduction strategies, rebuild expendable resources as calculated by DBRS Morningstar, and if debt growth materializes at a meaningfully slower pace than expected.

Financial Information

	For the year ended April 30				
(CAD millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Consolidated operating result[1]	(31.3)	(19.8)	(11.0)	(17.1)	(28.2)
Surplus-to-revenue (five-year average) (%)	-3.7	-4.0	-2.3	-3.1	-1.9
Debt per FTE ($)	12,161	13,009	9,857	10,311	10,333
Interest coverage ratio (times)	1.8	2.6	3.3	3.7	2.0
Expendable resources to debt (%)[2]	4.4	5.6	18.9	18.2	21.3

1. F2017 loss excludes a one-time expense of $13.6 million for the voluntary retirement program.
2. Concordia restated its F2019 financials to begin consolidating financial statements for its significant controlled entities (in particular the Concordia University Foundation).

Issuer Description

Concordia is one of three English-language universities in Québec. Located in Montréal, the University offers more than 580 programs at both the undergraduate and graduate levels to approximately 30,000 FTEs at its downtown campus (Sir George Williams) and west-end campus (Loyola).

Rating Considerations

Strengths

1. Academic profile

The University ranks well in domestic and international surveys, despite its relatively short history as a comprehensive public university. Concordia has a highly ranked business school and a strong reputation in communication and media studies as well as in some of its social sciences and engineering programs. The University has invested heavily in capital, which has given it a fresh and modern feel and provided researchers with state-of-the-art facilities. Concordia's growing profile has enabled it to raise admissions requirements and student quality.

2. Location in downtown Montréal

Concordia is one of two English-language universities in downtown Montréal. The bilingual city is one of Canada's major urban centres, providing it with a large local catchment area of potential full-time and part-time students and an attractive destination for out-of-province and international students. The University draws a relatively larger share of its student population from outside Québec than most other universities in the Province.

3. Responsive financial management

The University has faced significant financial challenges in past years because of provincial funding reductions. Concordia was responsive, implementing several significant measures to limit the deterioration in operating results. Starting in F2019, the University changed its accounting policy to consolidate financial statements for its significant controlled entities, in particular the Concordia University Foundation, to improve transparency and financial reporting practices. Earlier in F2020, the University implemented a comprehensive budget model to reflect changing priorities led by an increasingly challenging operating environment.

4. Strong provincial support for education

Québec's social attitudes and politics tend to focus more on social democracy than other Canadian provinces, which leads to broad public and political support for universally accessible education, health care, and other social programs. The Province makes post-secondary education widely available by providing greater subsidization of post-secondary costs than other provinces. At Concordia, for instance, government grants have typically accounted for between 55% and 60% of revenue in recent years while tuition accounts for a little more than 25% of revenue. In other provinces, the ratio tends to be more balanced.

Challenges

1. Limited control of revenue

Canadian universities have limited control over their main revenue sources — tuition fees and government grants. Universities in Québec rely heavily on provincial funding and the Province sets limits on tuition fee increases. After several years of funding reductions that led to a significant deterioration in operating results, the Province announced its commitment to reinvest in the universities sector in 2017—18. Concordia received the majority of its funding allocation in F2020, and expects funding to stabilize around current levels or increase modestly over the medium term. However, the University forecasts consecutive operating deficits through the medium term, due to operating pressures led by the pandemic.

2. Significant debt burden
DBRS Morningstar categorizes university debt in Québec as either university supported or provincially supported. University-supported debt is issued by the university in its own name and serviced by its general revenues (e.g., tuition fees, operating grants, etc.) while provincially supported debt is issued in the university's name and funded by dedicated provincial capital grants. Concordia's university-supported debt totalled $362.7 million in 2019–20, equivalent to $12,161 per FTE, which is higher than average for DBRS Morningstar-rated universities. However, debt is likely to increase significantly in light of plans to fund a portion of Concordia's operating deficits over the medium term through debt.

3. Limited balance sheet flexibility
Concordia has a relatively weaker balance sheet than many DBRS Morningstar-rated universities in Canada, partly reflecting Québec's more constrained operating environment and prior funding reductions. As of April 30, 2020, DBRS Morningstar estimated Concordia's expendable resources to be a modest 4% of University-supported debt.

4. No provincial guarantee on subsidized debt
Provincially supported debt is issued in the university's name and does not benefit from an explicit provincial guarantee. Nevertheless, the Province remains committed to post-secondary education and DBRS Morningstar expects that the Province will continue to provide the sector with debt-servicing grants to service the provincially supported debt.

Operating Performance

2020-21 Budget and Medium-Term Outlook

Starting in June 2020, Concordia implemented a revised budget model to incorporate multi-faceted changes to the budgetary framework to focus on long-term financial sustainability, improved governance and transparency, and a more cohesive university-wide strategy for long-term capital investments.

Concordia' new budget model integrates operating, capital, and cash budgets to allow for more comprehensive financial planning and the optimal use of resources across budgets. The University is also formalizing an integrated financing program that will align the University's liquidity requirements with planned capital investments over a four-year horizon.

Under this new model, the University also introduced an integrated funding framework that will act as the central funding framework for all institutional budgets. The new framework introduces strategic debt-to-FTE as a key funding indicator that includes two buckets:

- Active: This bucket will govern the resources required to implement Concordia's research and academic strategies over a planning horizon of four years. The University has set an internal active net debt-to-FTE limit of $12,000 (or $360 million), including new debt issuances to offset operating deficits. As of April 30, 2020, Concordia's net debt to FTE ratio was $5,666. The board requires the University to closely monitor this ratio and present an action plan if Concordia anticipates noncompliance.

- Strategic: This bucket will govern the resources needed to secure development capacity in line with the University's longer-term strategy. The internal limit on strategic net debt to FTE is set at $3,000 (or $90 million). As of April 30, 2020, strategic net debt to FTE was $1,680.

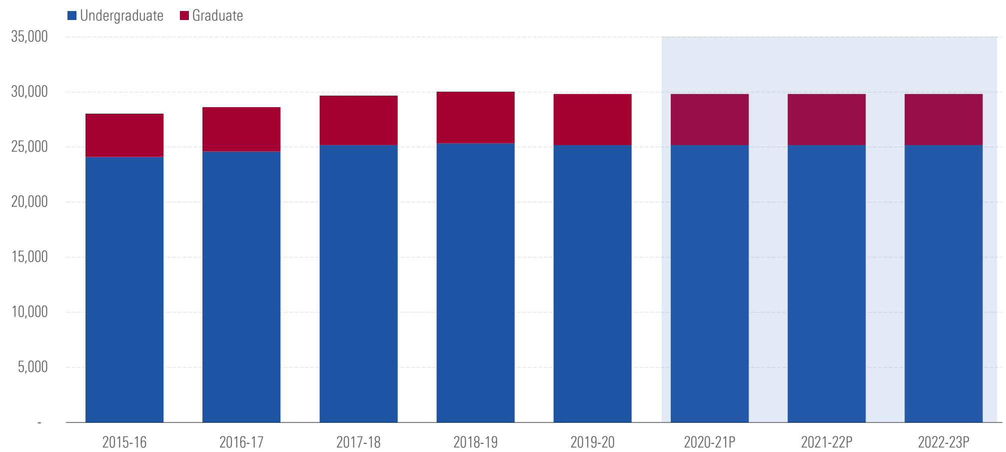
The pandemic has prompted significant budget uncertainty for many Canadian universities. The University responded to the pandemic with campus closure and a transition to online learning, which resulted in loss of revenue from some ancillary services, and additional expenses toward student assistance, technology investments, and sanitization and extensive cleaning.

In May 2020, in lieu of a formal budget, Concordia's board of governors approved spending of up to $300 million for regular operations, and a special, nonrecurring spending envelope totaling $25 million to cover pandemic-related costs until October 31, 2020. The University only used up a portion of the approved envelope.

Concordia considered several scenarios and forecasted an operating budget deficit of $37.8 million in F2021 based on what the University considers is the most likely scenario. Concordia will manage this deficit through cost efficiencies (approximately $5.0 million), use of reserves ($10.0 million), and new external debt. The deficit estimate includes a net $20.7 million adverse financial impact because of the pandemic.

The budget forecasts a 3.1% decline in total revenue and an increase of 4.1% in total expense, relative to the prior-year budget. At the time of this report, Concordia forecasted an enrolment growth of roughly 3.5% in 2020—21 academic year. The rise in enrolment will remain supported by international students, although the University noted modestly lower first year international intake, limited growth in domestic enrolment, and a higher uptake of part-time courses. The University expects the proportion of international students to remain stable around 21% over the long term (21.8% as of April 30, 2020). Concordia will raise tuition fees for new international students in deregulated programs up to 8.25%, and will implement tuition fee increases of 3.1% for all other students (domestic students, students from France and Belgium, returning international students, and international students in regulated programs).

Exhibit 1 Enrolment (Raw FTEs)



Source: Concordia and DBRS Morningstar. P = Projection.

The Province will continue to hold operating grants relatively stable over the medium term based on 2018—19 enrolment levels, and is providing $3.2 billion in operating funding to universities in Québec. The University indicated that there may be some additional government funding in 2020—21 to offset the unusual and nonrecurring impacts of the pandemic. The 2020—21 budget assumes a modest 1.8% growth in provincial grants.

The medium-term outlook is less clear, given ongoing travel restrictions and other pandemic-related health concerns. DBRS Morningstar believes adverse demographic trends will continue to weigh on domestic enrolment, with international enrolment and international tuition fees driving much of the growth in tuition revenues. The University anticipates operating budget deficits through the medium term and will implement cost efficiencies, draw on reserves, and use existing and new debt to eliminate losses in the absence of material new funding from the Province. Concordia's 2021—22 budget will address some of the post pandemic structural challenges over a three-year horizon and will be presented to the Board in May of 2021.

2019—20 Results

Unlike most Canadian universities, Concordia University Foundation (the Foundation) holds and manages the University's debt retirement fund (sinking fund), endowment fund, and certain other restricted funds. Effective May 2019, the University started consolidating financial results for its significant controlled entities (including the Foundation) and restated its F2019 financial statements to reflect this change. The Foundation's assets represent roughly 30% of the University's balance sheet and Concordia exercises significant control over the Foundation's activities. As such, DBRS Morningstar adjusted Concordia's financial statements to consolidate the Foundation's activities and holdings in prior years.

On a consolidated basis, the University has posted deficits over much of the past decade because of major provincial funding reductions between 2010–11 and 2015–16. In 2019–20, Concordia reported a consolidated deficit of $31.3 million, weaker than the $19.8 million loss in the prior year.

Total revenue increased slightly (+1.7%), primarily driven by higher tuition revenues (+8.4%) as increases in tuition fees offset slightly lower raw FTEs (-0.7%). In 2019–20, Concordia increased tuition fee rates by 3.6% for students in regulated programs (Québec and international students) and for Canadian students from outside Québec, French, and Belgian students .Tuition fees increased up to 8.25% for international students in deregulated programs. Demographics remain a challenge for universities in Québec. Concordia noted a modest decline in domestic undergraduate enrolment, which was only partly offset by growth in international undergraduate enrolment.

In 2019–20, the increase in government grants moderated to 2.4%, relative to a robust growth of over 10% in the prior year, a result of higher provincial funding as a result of targeted provincial measures to reinvest in post-secondary education.

The University reported lower revenue across other categories that was exacerbated by the onset of pandemic at fiscal year-end, including revenue from services to students, community, and other income (-4.5%); ancillary services and rental properties (-11.4%); and donation income (-10.4%). Investment income typically represents a small portion of total revenue (~1%). Market returns declined sharply (-79.4%) as the pandemic materially affected financial markets in March 2020. Market returns generally recovered in the subsequent months but remain volatile.

Total expense was up moderately (+3.4%) as spending across most categories increased. However, this growth is lower than a roughly 11.0% increase in the prior year, reflecting effective spending control that offset some of the higher costs (student assistance, refunds, etc.) from the pandemic. Although expense growth in 2019—20 was broad-based, the key contributors were academic services and support (+3.0%); institutional services and support (+4.8%); services to community, students. and other expense (+11.4%); and interest expense (9.5%).

Following multiple years of a deficits, the University's net asset position has deteriorated. As of April 30, 2020, net assets declined to $59.1 million, or roughly 65% lower relative to F2015.

Prior to the pandemic, Concordia was anticipating a balanced operating budget. However, the University recorded an operating budget deficit of $4.9 million in 2019—20 that resulted from the loss of some revenues and increase in expenses directly arising due to the pandemic.

Capital Plan

The University prepares an annual four-year rolling capital budget. The four-year plan allocates funds to projects based on the University's priorities, provincial/federal capital support, and the availability/affordability of financing. Concordia's Capital Asset Management and Financing Policy is intended to ensure that the University balances its infrastructure requirements with financial considerations.

Concordia continued to invest heavily in capital projects in 2019—20, with capital investment totalling $91.6 million. During the year, Concordia completed the construction of the applied science facility at Loyola (Science Hub), which was inaugurated in early December 2020. The nearly $62.0 million project was primarily funded by the federal government's Post-Secondary Institutions Strategic Investment Fund and by contributions from the Province.

Other significant capital projects planned or currently underway include ongoing enhancements to Concordia’s information technology (IT) systems, payroll systems upgrade, facilities upgrades, renovation of the Henry F. Hall building (Hall building; likely to continue until the end of 2025) and various deferred maintenance needs.

The 2019–20 to 2022–23 Capital Plan, approved by the Board of Governors in October 2020, identified approximately $427.8 million in capital projects over the four-year period, up from $325.0 million in the prior iteration (2018–19 to 2021–22) due to planned investment in the Hall building. Roughly 66% of the planned capital costs will be funded through provincial and federal subsidies and grants, and private donations.

Beyond the already approved plan, Concordia will plan any additional projects in collaboration with private-public partnerships or through off-balance sheet arrangements, and potentially with contributions from the Province to preserve the University's limited internal resources.

The University’s capital priorities are also likely to shift in the coming years. Concordia has now begun to develop a Campus Master Plan (CMP), which will set a long-term vision for its campuses. The University has acquired real estate around its downtown campus in recent years and is also considering long-term rentals or lease options to support future growth needs. The new CMP is likely to provide some guidance on how this land may be redeveloped.

Among Québec universities, Concordia has an average amount of deferred maintenance. The most recent facility audit (F2020) resulted in an estimated facility condition index (FCI) of 19.3%, which is comparable with the Québec average of 19.0%, but well above the Province’s target of 15.0%. Concordia has invested heavily in infrastructure in recent years, providing students and researchers with modern facilities. The University owns two older buildings that account for the bulk of its deferred maintenance:

- Grey Nuns Building (Grey Nuns): A national historic site that now serves as student housing (601 beds) and study space. The large complex was previously the Grey Nuns Motherhouse and was built in the 1860s and 1870s.
- Hall Building: The large concrete academic building accounts for about 18% of the University’s square footage. The building was constructed in the 1960s and is now over 50 years old.

The two building contribute to nearly half of Concordia's FCI. The University plans to continue investing in deferred maintenance with significant allocations to both Grey Nuns and the Hall building, which should help to reduce the FCI over the coming years.

Debt and Liquidity

DBRS Morningstar categorizes university debt in Québec as either university supported or provincially supported. University-supported debt is issued by the university in its own name and serviced by its general revenues (e.g., tuition fees, operating grants, etc.) while provincially supported debt is issued in the university's name funded by provincial capital grants to the university. The latter is not explicitly guaranteed by the Province. Nevertheless, DBRS Morningstar views this debt as a provincial obligation because the Province dictates its issuance and services the debt through dedicated grants. The universities transfer to the trustee all right, title and interest related to the debt-servicing grants.

The University is subject to a provincially imposed debt limit of $1.0 billion (total debt) and the University implemented revised thresholds for acceptable levels of net debt per FTE.

As at April 30, 2020, Concordia's university-supported debt burden was $362.7 million (or $12,161 per FTE). For $265.6 million debentures maturing between 2039 and 2059, the University is required by law to maintain a sinking fund. As at April 30, 2020, the sinking fund was valued at $128.6 million. Since the sinking fund is not held by a trustee that can guarantee the integrity of the funds until maturity, DBRS Morningstar does not net the value of the sinking fund from the amount of university-supported debt for the purpose of ratio calculations. The sinking funds (held by the Foundation) are, however, included in DBRS Morningstar's measure of expendable resources.

- Property-related debt: The University established a sinking fund to repay $275 million in university-supported debentures and all other property-related investment debt. The fund had $63.1 million in assets at April 30, 2020, and Concordia estimates contributions of nearly $1.5 million to the fund annually.
- Equipment, Infrastructure and IT Platforms debt: The University has a sinking fund to repay debt related to shorter-duration assets, which had $65.5 million in assets at April 30, 2020. Concordia expects to contribute $7.5 million annually to the fund.

University-supported debt interest expense has remained stable around 3.0% of total expense, though the interest coverage ratio declined to 1.8 times (x), mainly led by a weaker operating performance in F2020. Concordia's interest coverage is lower than most DBRS Morningstar-rated universities.

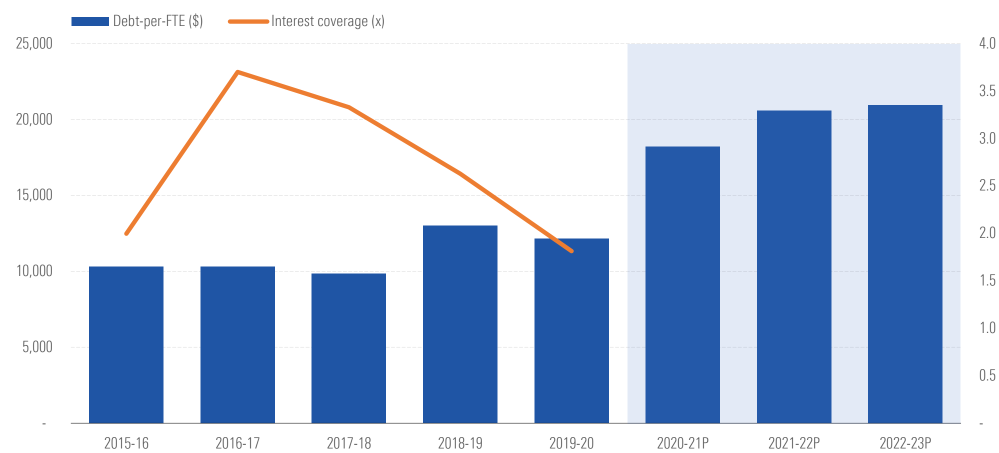
Concordia's debt retirement fund (sinking fund) and endowment fund are held by the Foundation. Prior to F2019, Concordia did not consolidate the results of the Foundation. Consequently, DBRS Morningstar adjusted the University's financial statements to include the Foundation's net assets. The foundation's funds are held in three primary funds:

- Long-term debt fund: A sinking fund to repay the $275 million university-supported bond issuance set to mature between 2039 and 2059.

- Employee benefits fund: A fund to make provisions for the various unfunded future employee benefit obligations and pension liabilities.
- Endowment fund: A fund comprising externally restricted endowments made to the University. The endowment makes annual payments to the University at a payout rate of 3.5% to support its operations.

Concordia has one of the weaker balance sheets among DBRS Morningstar-rated universities. DBRS Morningstar assesses balance-sheet flexibility by calculating expendable resources, a subset of net assets that includes unrestricted net assets, most internally restricted net assets, and internally restricted endowments. The restatement of F2019 financial statements by the University to consolidate the Foundations' net assets resulted in a downward change in expendable resources. As of April 30, 2020, DBRS Morningstar estimates Concordia's expendable resources to be $16.0 million, or 4.4% of university supported debt. Expendable resources will likely remain weak through the medium term as the University draws on reserves to offset deficits.

Exhibit 2 Debt per FTE and Interest Coverage



Sources: Concordia and DBRS Morningstar. P = Projection.

Employee Future Benefits

The funding status and outlook for the University's pension plan has improved considerably in recent years. Provincial legislation in 2016 required changes to public-sector pension plans in Québec. Effective January 1, 2018, pension-related risks and costs are more equally shared by the employer and employees with contributions of 55% and 45% (from 75%/25%) to the fund, respectively. The changes have provided savings to the University.

As of April 30, 2020, the University reported a pension plan funding deficiency of $66.8 million. The University conducts triennial actuarial valuations for funding purposes (i.e., determination of contribution rates, special payments, etc.). Concordia's most recent valuation on December 31, 2019, includes broad-based changes to actuarial assumptions related to discount rate, inflation rate, salary scales, and pensionable earnings, which led to a lower preliminary unfunded liability of $100.3 million compared with $110.5 million as of December 31, 2018. On a preliminary basis, total required contributions payable in 2021 are estimated at $60.9 million, higher than the $58.4 million required as of the prior valuation that became payable in 2019–20. Funded status on a going-concern basis improved to 91.2% (89.7% as at December 31, 2019). The University is required to make special payments to eliminate any going-concern deficits. Under the pension reform legislation, Concordia is fully responsible for pre-2016 going-concern deficits and is responsible for 55% of the going-concern deficits in the subsequent period. Concordia expects special payments to remain unchanged around $5.0 million through the next year. Universities in Québec are not required to make special payments to address solvency deficits.

The University also provides its employees with other postretirement benefits (e.g., life and health insurance). These benefits are paid on a pay-as-you-go basis and Concordia is not required to set aside funds against the liability. As at April 30, 2020, the University's liability for these plans totalled $112.6 million. Over the longer term, these liabilities pose a challenge for the sector as the cost of future health benefits is expected to rise with improving longevity and inflation. At present, Concordia is responsible for 85% of the cost of the other post-employment benefits.

Outlook

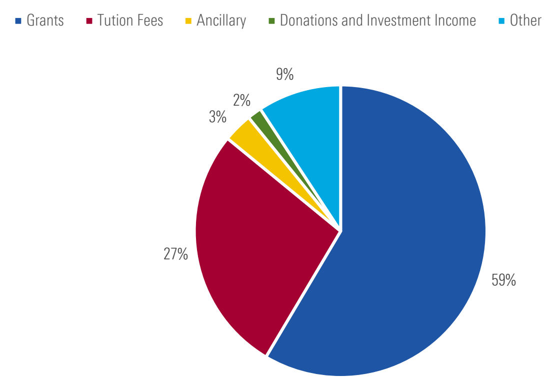
The University's debt burden is set to increase sharply in the coming years, with university-supported debt likely to rise by an average 40% over the next three years. Concordia has indicated that it will access debt for both strategic investments and to fund a portion of projected operating deficits over the medium term. DBRS Morningstar estimates University-supported debt-to-FTE will increase to approximately $21,000 by F2023. DBRS Morningstar notes the increase in debt will considerably reduce borrowing flexibility and limit improvement in ratings.

University Funding in Québec

Québec universities generally have three major revenue sources for their core teaching and research activities: (1) government grants, (2) tuition fees, and (3) donations and investment income. For Concordia, these accounted for 88% of total revenue in 2019–20.

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 and at most universities, 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 3 Revenue Breakdown (2019–20)



Sources: Concordia and DBRS Morningstar.

Government Funding (Provincial and Federal; 59%)

Government funding includes operating, research, and capital grants. Operating grants are the largest source of revenue and are exclusively provided by provincial governments. In Québec, operating grant funding is allocated through three principal funding envelopes:

- Teaching: Allocated across universities in proportion to enrolment at each institution with students weighted based on the relative cost of the program in which they are enrolled. Concordia's 2020–21 budget assumes a teaching grant of $183 million.
- Support for teaching and research: Funding for general administration costs, library operations, and computer and audio-visual equipment. It is composed of a fixed amount and a variable component based on enrolment (headcount). In 2020–21, the University foresees a support grant of $57 million.
- Maintenance (land and buildings): Provided largely based on the floor space that is recognized for funding purposes. Concordia anticipates $38 million maintenance grant in 2020–21.

Between 2010–11 and 2015–16, the Province announced successive rounds of funding reductions as part of its broader deficit reduction effort. The funding reductions led to a deterioration in operating results and required universities to adopt offsetting measures. In 2017–18, the Province announced that it would (1) increase base funding to the sector and then (2) steadily increase funding levels to offset the impact of the previous funding reductions by 2022–23. Of the designated $30.0 million allocated to Concordia, the University had received $21.7 million by 2019–20.

The federal government typically provides 65% to 75% of all public research funding. In recent years, the federal government has announced additional funding supports through research scholarships, in addition to several other measures to improve the affordability of post-secondary education in Canada.

Capital grants are largely provided by provinces but take an unusual form in Québec. Rather than providing cash transfers as in other provinces, most capital grants are funded by debt issued by the Province in the university's name. The Province then provides the university with restricted grants to service that debt.

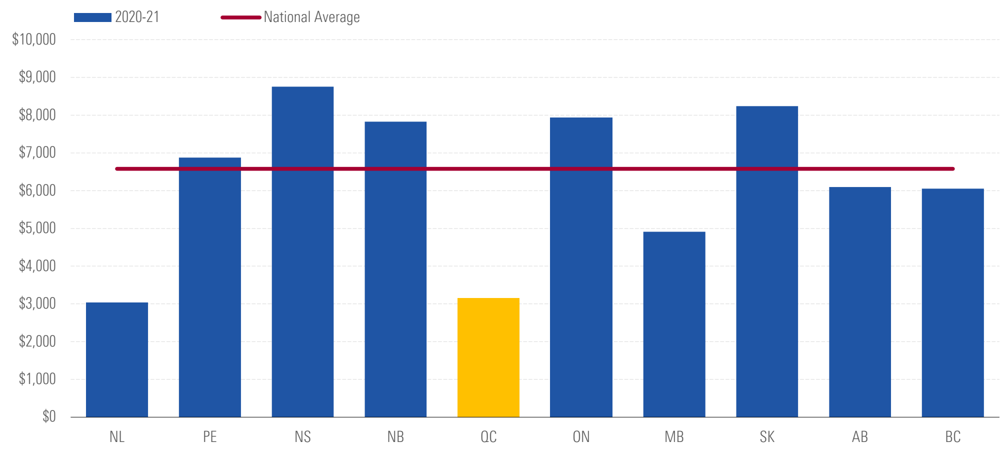
Tuition (27%)

Tuition fees are low in Québec, which reflects past policy decisions by the Province that limited increases. The current approach to fee increases has been in place since 2012. The Province has a formula-driven approach, which seems unlikely to change over the medium term after the widespread student protests that occurred in 2012. Despite the pandemic, the system continues to provide universities with modest flexibility to raise tuition fees to offset some of the inflationary pressures.

- Residents of Québec: Annual tuition fee increases for regulated programs can be increased by an amount equivalent to growth in a provincially defined indexation factor (similar to household disposable income). In 2020–21, tuition fees for residents of Québec will rise by 3.1%.
- Residents from other Canadian provinces, France, and Belgium: Annual tuition fee increases for regulated programs can be increased by an amount equivalent to growth in average tuition fees elsewhere in Canada as estimated by the Province. In 2020–21, tuition fees for students from other provinces will increase by 3.1%, relative to 4.25% in the prior year.
- International students: The Province deregulated tuition fees for international students in programs other than research based masters and doctoral programs. For 2020–21, Concordia modestly increased tuition rates for deregulated new international students with fee increases set between 4.25% and 8.25% based on the program. The fee increase for deregulated existing international students will increase by 3.1% in 2020–21.

Québec universities are required to remit a portion of out-of-province and international student tuition fees to the Province, which diminishes the financial benefit of higher fees for out-of-province and international students. With the deregulation of international student fees, the Province will not claw back any portion of the higher fees, incenting universities to seek international students and raise tuition fees. However, the Province will reduce some operating grants intended to support international students. The Province also mandated that universities limit fee increases on existing students and will provide some offsetting funding.

Exhibit 4 Average Undergraduate Tuition Fees ($)



Source: Statistics Canada.

Donations and Investment Income (2%)

Unrestricted donations and investment income recognized on the statement of operations typically represents between 2.0% and 4.0% of the University's revenue. Concordia launched a major fundraising campaign in November 2017 (The Campaign for Concordia: Next-Gen), seeking to raise $250 million. The University has raised over two-thirds of the campaign target and expects to successfully complete the campaign earlier than planned.

In 2019—20, the University received $8.3 million (versus $9.3 million in 2018–19) in unrestricted donations, and $2.3 million ($12.1 million in 2018–19) in endowment contributions. As at April 30, 2020, the endowment's market value was slightly lower at $116.6 million (-4.0%), compared with a strong increase in the prior year of +24.0%. The Foundation's annual endowment payout policy is to distribute 3.5% of the weighted-average market value of the endowment over the previous 36 months. Concordia has among the smallest endowments of DBRS Morningstar-rated universities.

Statement of Operations (Adjusted)

($ thousands)	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Revenues					
Tuition fees	175,750	162,178	148,302	131,583	124,372
Grants	375,377	365,019	330,970	315,870	307,055
Services to the community, etc.	59,345	62,123	58,215	59,729	55,111
Ancillary services and rental properties	20,791	23,457	23,578	24,065	24,437
Investment income	1,780	8,652	6,749	22,793	(2,869)
Donations	8,327	9,296	7,881	9,778	6,865
Total Revenues	**641,370**	**630,725**	**575,695**	**563,818**	**514,971**
Expenses					
Academic services and support	289,700	281,152	258,066	250,254	233,246
Research	71,682	73,803	63,370	57,428	55,764
Institutional services and support	104,413	99,670	89,713	85,386	82,525
Services to the community, students and other expense	33,381	29,975	28,053	27,246	26,446
Endowed and restricted projects	17,552	15,322	14,105	16,108	12,650
Employee future benefits	50,271	48,988	44,542	43,416	44,655
Ancillary services and rental properties	17,375	16,165	15,785	15,537	16,980
Capital maintenance projects	11,284	10,506	2,815	2,403	2,086
Interest expense	29,202	26,660	24,241	24,726	25,454
Amortization of tangible capital assets	44,147	44,141	42,431	41,291	40,045
Amortization of intangible capital assets	3,651	4,133	3,569	3,466	3,282
Total Expenses	**672,658**	**650,515**	**586,690**	**567,261**	**543,133**
Excess of revenue over expense	**(31,288)**	**(19,790)**	**(10,996)**	**(3,443)**	**(28,162)**
Non-recurring revenue/(expenditures)[1]	-	-	-	(13,649)	-
Gross capital expenditures	**(31,288)**	**(19,790)**	**(10,996)**	**(17,092)**	**(28,162)**

1. 2017-18 loss excludes a nonrecurring expense of $13.6 million for the voluntary retirement program.

Statement of Financial Position (Adjusted)

($ thousands)	As at April 30				
Assets	**2020**	**2019**	**2018**	**2017**	**2016**
Cash and cash equivalents	19,582	60,843	12,184	33,648	22,261
Grants and accounts receivable	145,726	160,706	76,576	66,873	66,544
Prepaid expenses and other assets	8,601	9,628	9,512	8,466	9,956
Amount receivable from MEES	67,044	69,785	72,183	80,377	119,715
Investments	269,889	236,307	176,737	165,454	150,398
Tangible capital assets	877,944	852,656	806,581	795,192	792,490
Intangible capital assets	41,496	23,026	24,820	26,241	27,589
Other assets	503	465	3,520	3,648	-
Total Assets	**1,430,785**	**1,413,416**	**1,182,112**	**1,179,899**	**1,188,953**
Liabilities and Net Assets					
Liabilities					
Payables and other current liabilities	114,093	113,123	89,991	92,033	67,419
Unearned revenue	22,482	27,320	16,405	13,735	12,341
Bank loans	132,513	133,400	101,200	105,000	106,500
Long-term debt	681,861	633,694	566,091	564,953	556,608
Deferred contributions	241,375	237,096	133,991	124,248	127,323
Employee future benefit liability	179,351	190,305	182,024	161,803	193,791
Total Liabilities	**1,371,675**	**1,334,938**	**1,089,702**	**1,061,772**	**1,063,982**
Net Assets					
Unrestricted	(112,640)	(113,656)	(109,946)	(106,379)	(85,502)
Employee future benefits	(179,351)	(190,305)	(182,024)	(161,803)	(193,791)
Internally restricted	128,640	135,729	165,187	160,172	147,178
Invested in capital assets	105,890	125,228	136,993	143,250	169,029
Endowments	116,571	121,482	81,918	79,290	78,024
Consolidation adjustment[1]	-	-	282	3,597	10,032
Total net assets	**59,110**	**78,478**	**92,411**	**118,128**	**124,971**
Total Liabilities and Net Assets	**1,430,785**	**1,413,416**	**1,182,112**	**1,179,899**	**1,188,953**

1. Effective F2019, the University changed its accounting policy to consolidate financial statements for its significant controlled entities, in particular the Concordia University Foundation. Prior to this accounting change, DBRS Morningstar adjusted Concordia's financial statements to consolidate the Foundation's activities and holdings.

Calculation of Free Cash Flow (Adjusted)

($ thousands)	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Operating balance before fund transfers	(31,288)	(19,790)	(10,996)	(3,443)	(28,162)
Amortization	47,798	48,274	46,000	44,757	43,327
Other noncash adjustments	11,182	26,859	(23,004)	(10,810)	20,384
Cash Flow from Operations	**16,510**	**28,484**	**35,004**	**41,314**	**15,165**
Change in working capital	(25,313)	9,506	(14,898)	20,228	938
Operating Cash Flow after Working Capital	**(8,803)**	**37,990**	**20,106**	**61,542**	**16,103**
Capital expenditures	(91,556)	(92,555)	(54,014)	(45,588)	(57,385)
Free Cash Flow	**(100,359)**	**(54,565)**	**(33,908)**	**15,954**	**(41,282)**

Summary Statistics (Adjusted)

	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Total Enrolment (Raw FTEs)[1]	**29,822**	**30,034**	**29,666**	**28,625**	**28,036**
Undergraduate (%)	84%	84%	85%	86%	86%
Graduate (%)	16%	16%	15%	14%	14%
Annual change (%)	-0.7%	1.5%	2.5%	3.0%	-0.2%
Enrolment (Headcount)					
Domestic (%)	78.2	79.4	81.6	83.5	84.1
International (%)	21.8	20.6	18.4	16.5	15.9
Total Staff (FTEs)[2]	**3,791**	**3,606**	**3,658**	**3,600**	**3,458**
Academic staff	41%	42%	45%	43%	43%
Operating Results					
Surplus (deficit; $ thousands)	(31,288)	(19,790)	(10,996)	(17,092)	(28,162)
- As % of revenues	-4.9	-3.1	-1.9	-3.0	-5.5
- As % of revenues (five-year rolling average)	-3.7	-4.0	-2.3	-3.1	-1.9
Revenue Mix					
Government funding (%)	59	58	57	56	60
Tuition (%)	27	26	26	23	24
Ancillary (%)	3	4	4	4	5
Donations and investment income (%)	2	3	3	6	1
Other (%)	9	10	10	11	11
Debt and Liquidity					
Total debt ($ millions)	814	767	667	670	663
Debt serviced by Province ($ millions)	452	376	375	375	373
Debt serviced by University ($ millions)	363	391	292	295	290
- Per FTE student ($)	12,161	13,009	9,857	10,311	10,333
Estimated university-supported interest charges ($ millions)	20.3	17.5	15.0	15.3	15.2
Interest charges supported by University/total exp.	3	3	3	3	3
Interest coverage ratio (times)[3]	1.8	2.6	3.3	3.7	2.0
Expendable resources ($ millions)	16.0	22.1	55.2	53.8	61.7
As a share of long-term debt (%)	4	6	19	18	21
Endowments					
Total market value ($ millions)	117	121	98	-	-
Per FTE student ($)	3,909	4,045	3,303	-	-

1. Excludes continuing education.
2. Staff and academic staff exclude auxiliary students and part-time faculty for continuing education. A part-time FTE faculty is based on a load of four courses of three credits.
3. Defined as surplus before interest, amortization, and fund transfers divided by interest charges supported by the University.

Rating History

Issuer	Debt	Current	2019	2018	2017	2016	2015
Concordia University	Issuer Rating	A	A	A	A	A	A
Concordia University	Senior Unsecured Debt	A	A	A	A	A	A

Related Research

- *Rating Public Universities*, May 15, 2020.

Previous Report

- Concordia University: Rating Report, November 22, 2019.

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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