

CREDIT ANALYSIS

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Concordia University, Quebec and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Concordia University, Quebec

Canada

Ratings

Concordia University, Québec

Category	Moody's Rating
Outlook	Stable
Bonds	Aa2

Summary Rating Rationale

Concordia University's Aa2 debt rating reflects the university's consistent positive funds from operations, established market position and its role as part of the Province of Québec's key public policy directive of ensuring access to higher education. Already set apart from other Québec universities as being one of the two major English language universities in the province, Concordia has established a unique niche by focusing on serving first-generation and non-traditional university students. While Concordia carries a higher-than-average debt burden, its net debt has declined significantly in recent years as short-term credit lines were refinanced with subsidized debt from the province. The Aa2 rating also reflects the university's limited sources of internal liquidity, a high level of pension liabilities and near-term operating challenges requiring significant expenditure control. This is somewhat offset by the close relationship with the Province of Québec, which provides the university with significant debt subsidies, and is likely to provide additional support should the university experience an acute liquidity situation.

Rating Outlook

The outlook is stable.

What Could Change the Rating - Up

An increase to provincial operating support and/or greater flexibility to tuition setting, more diverse revenue streams and greater university fundraising efforts that contribute to significantly stronger internal liquidity could place upward pressure on the rating.

What Could Change the Rating - Down

A deterioration in the university's operating performance and the continuation of deficits could place downward pressure on the rating. A material increase in the debt burden, a decline in liquidity, or further escalations in pension liabilities could also apply downward pressure on the rating.

Issuer Profile

Concordia University, in its present form, was established in 1974 through the merger of Sir George Williams University (founded in 1873) and Jesuit-run Loyola College (founded in 1848). The legacy of this merger continues today via the separation of Concordia's two campuses - one located in downtown Montréal and the other located in a residential area west of the city centre. The university's programs are primarily focused on a diverse curriculum of studies, with a greater emphasis than most Canadian universities to supporting part-time students. More than 300 undergraduate and graduate programs are offered through four faculties (Arts and Science, Engineering and Computer Science, Fine Arts, and the John Molson School of Business Studies) and the School of Graduate Studies.

Key Rating Factors

Market Position

Enrolment supported by market niche and program flexibility

As one of only two major English language universities in the francophone province of Québec (along with McGill University), Concordia has a unique market niche which bolsters its market position. Its mission is to serve first-generation and non-traditional students, which creates a student body that has a large socio-economic and cultural diversity. Concordia promotes access to higher education within Québec through the design of its admissions requirements and programs, which offer greater flexibility to match its students' diverse backgrounds and schedules. Not surprisingly, Concordia has the highest percentage of part-time students of any Québec university.

The university's current enrolment measures about 28,000 full-time equivalent students (FTE). Since 2009, and in conjunction with their current strategic framework, Concordia has focused on increasing enrolment, which has resulted in an average annual growth rate of 2.9%. The university's strategy to increase its recruitment of international students has also helped to bolster enrolment and help offset relatively flat domestic tuition fees. Additionally, recruiting a greater number of graduate students has also been an important element on enrolment growth, and since 2009, the growth in graduate FTEs has surpassed the growth in undergraduate FTEs. In recent years the university has made investments on campus facilities, including the Centre for Structural and Functional Genomics, which opened in 2011. These new state-of-the-art facilities are expected to support Concordia's goal to increase the proportion of graduate students from the current level of 12% of enrolment to 20%.

With an expected easing in the population growth of 18 to 24 year olds, demographic trends in Québec are not expected to be supportive of significant growth in higher education enrolment. However, Concordia's focus on non-traditional students, including mature and first generation students more attracted to professional training than a traditional arts and sciences curriculum, could help the university continue to grow its enrolment over the longer term. The higher concentration of non-traditional and international students can also be attributed as a factor to the reduced impact seen at Concordia from the general student strike across Québec in the spring of 2012.

Government Relationship

Education, including higher education, in Canada is a key public service provided by the provinces. In Québec, universities report to the Ministère de l'Enseignement supérieure, de la Recherche, de la Science et de la Technologie. Concordia, as with other universities in Québec, must adhere to regulations stipulated by Québec. Unlike other provinces which provides guidance on tuition setting and caps limits on tuition rate increases, but otherwise leaves considerable discretion to tuition setting practices of their

universities, Québec controls tuition-setting for all universities. Tuition is based on residency, with different rates set for Québec, Canadian (non-Québec) and International residents. As such, Québec universities have less direct control over tuition revenue than other Canadian universities.

Government changes introduced instability

The tuition setting imposed by the province has undergone dramatic changes in recent years. Until 2007, rates were capped at the same level since 1994. Starting in 2007, tuition rose CAD 100 per scholastic year. Prior to the start of the 2012-13 year, rates were announced to increase CAD 325 per year, however, following the election of a new government in September 2012, the rate increase for 2012-13 was cancelled. In February 2013, the government announced that tuition would be indexed each year to account for inflation, to a maximum of 3%, starting with the 2013-14 school year. The rate set for 2013-14 was 2.6%.

In December 2012, the province, facing fiscal challenges as it moved to a balanced budget, announced that funding for universities would be reduced CAD 125 million for 2012-13. This was later extended to an additional cut of similar size for 2013-14. The late timing of these announcements, particularly for 2012-13 when only 4 months of the fiscal year were remaining, created pressure on the universities across the province. The province also announced that beginning in 2014-15, it would begin to reinvest CAD 1.7 billion in universities across five years. We will continue to monitor the province's funding plans for Québec universities.

Governance and Management

Provincial legislation determines university's governance structure

Concordia University derives its authority from provincial law - the Concordia University Act. The Act currently sets debt limits of CAD700 million, which may be revised when required with approval of the province. The Act specifies that a board of governors of 20 to 40 members, elected by the members, is to regulate financial matters, including borrowing, and to nominate the President and executive officers. Concordia currently has 25 Board members, 15 of which are from outside the University to ensure a strong level of independence. As with most Canadian universities, the governance of Concordia is bicameral with a separate Senate that oversees academic affairs and confers degrees.

Compared to the stability brought to the University from 1974 to 2005 when the first three presidents/rectors each served for 10 years, the governance of the university has undergone some instability since 2005. With the nomination of the most current president in August 2012, Concordia has seen 5 people occupy the President's chair over the past 8 years. Moody's would view greater stability within the executive administration as a sign of stronger governance and management characteristics.

The university exhibits conservative management as evidenced by multi-year planning and the setting of specific benchmarks. Concordia also implements prudent investment and debt management policies. The university works closely with the province, seeking provincial input for major financial undertakings.

Operating Performance

With prudent management practices and a strong reliance on formula-driven provincial operating grants, which typically account for close to 50% of revenues, Concordia's operating outcomes have been relatively stable, although small deficits were recorded in recent years. In 2011-12, operating outcomes continued to improve, and the university's adjusted net income increased to 3.7% of adjusted revenue, the highest level recorded since 2001-02. On a cash basis, the university has also consistently generated positive funds from operations, which averaged a healthy 8.3% from 2001-02 to 2011-12.

2012-13 deficit driven mainly by external factors

Concordia delivered a balanced budget for 2012-13 during a period of uncertainty concerning potential increases to tuition rates. Following a change in government in September 2012, the tuition framework proposal that Budget 2012-13 was initially prepared under was cancelled, resulting in a loss of planned revenue arising from planned tuition increases. Furthermore, in December 2012, the Québec government announced that universities in the province were required to cut a collective CAD125 million from their 2012-13 budgets, resulting in CAD13.2 million reduction in operating grants for Concordia. With updated actuarial assumptions, the university's recorded pension expense in 2012-13 also increased significantly by about CAD 31 million. Although these negative impacts were partially offset by a 5% increase in tuition revenues due to stronger than expected enrolment growth, Concordia ended 2012-13 with a consolidated deficit of CAD 44.2 million, equivalent to about 8.8% of adjusted revenues. We recognize, however, that the significant deficit occurred in an unusual year, where universities in the province had limited time to adjust to changes in the funding environment. We also note that, despite funding challenges in 2012-13, the university continued to generate positive funds from operations, and was able to transfer CAD 9.3 million to the university's foundation, which is treated as a separate entity in the university's financial statements.

2013-14 budget balanced, but challenges remain

Despite a second year of operating grant reductions, the university was able to balance its budget for 2013-14 and projects a small operating surplus of CAD 1 million (0.25% of operating revenues). With a 2.6% indexation in tuition fees and modest enrolment growth, revenues is expected to grow moderately. The plan to achieve balanced operations therefore relies mostly on expenditure restraint, with academic and non-academic costs to be reduced by respectively 2.5% and 6.6%. While these targets appear ambitious, Concordia has undertaken an extensive review of its programs over the past few years, and their excellent cost knowledge for its programs should help support expense management initiatives. In addition, negotiated labor contracts with 8 out of 11 unions will also provide a level of certainty and support near-term operating outcomes. We note, however, that if the anticipated reinvestments in the sector by the Quebec government do not materialize, additional adjustments to the university's operations could be required. Furthermore, with the end of Quebec's temporary pension funding relief measures in December 31, 2013, Concordia will also face pressures from higher pension costs beginning in 2014-15. We will carefully monitor the university's financial outcomes in the near-term to determine potential credit implications.

Debt Profile

Relatively high debt burden, supported by province

As is common with Québec universities, roughly one-half of Concordia's total direct and indirect debt is supported by provincial debt service subsidies under Québec's grant bond program or through borrowings from Financement-Québec, a provincial Crown Corporation. As these subsidies cover 100% of debt service payments, we do not include this debt as part of the university's debt burden. As such, Concordia's non-supported debt is made up principally of a CAD200 million 40 year bullet debenture, as well as two swap loan agreements which totaled CAD 28.1 million at the end of 2012-13.

Concordia's debt burden has declined to 47.4% of adjusted revenues at April 30, 2013 from 75.5% five years ago. This mainly reflects the reduction on the university's line of credit, which is often accessed in advance of receiving provincial financing. Excluding this temporary source of financing, Concordia's debt burden has been relatively stable in recent years. However, the university's debt burden, including temporary borrowings made through the line of credit, remains slightly higher than that of most Canadian universities rated by Moody's. Nevertheless, we take comfort in the strong relationship that exists between the Province of Québec and the university, allowing Concordia to sustain its debt burden. Moreover, non-subsidized interest payments consumed 2.6% of revenue in 2012-13, a level that is considered manageable and does not constrain fiscal flexibility unduly.

Concordia faces physical limits for capital expansion on its main campus, which is located in the densely built downtown of Montréal. In the medium-term, capital plans mainly involve improvement of existing facilities, including modifications of its library and ongoing renovations for the former Grey Nuns convent, which is continuing to be converted into student residences. Due to these measured approaches of capital spending, we anticipate Concordia's debt profile to remain near current levels over the medium-term.

Significant pension liability to be addressed

The university's pension position has deteriorated in recent years. As of April 30, 2013, Concordia's unfunded pension liabilities measured CAD 375.6 million (75.3 % of adjusted revenues), compare to CAD 111.7 million (25% of adjusted revenues) two years ago. This deterioration is however due mostly to a decrease in the discount rate and other changes to actuarial assumptions. While Concordia's unfunded liability is significant, we recognize that the discount rate applied is conservative, and that the university has initiated plans to improve its pension position. We expect Concordia to be able to manage pension pressures, but further escalations in the university's pension liabilities could also apply downward pressure on the rating.

Balance Sheet Strength

Limited Sources of Internal Liquidity

Concordia University has a limited level of financial resources under its direct control, which exposes it to potential operating volatility. However, including investments held in Concordia's associated foundation, total cash and investments grew to CAD 142.8 million at April 30, 2013, compared to CAD 101 million four years ago. The bulk of these funds are externally restricted, and includes CAD36.1 million, as of April 30, 2013, set aside by the foundation for retirement of long-term debt held by the university.

While the university relies on a demand line of credit for short-term funding needs, which is often accessed in advance of receiving grants bonds, comfort is derived from historical maintenance of the bank line during periods of financial stress. Furthermore, the balance of the short-term line of credit continued to decrease in 2012-13, as the university refinanced about CAD 51.1 million with grant bonds from the province. At April 30, 2013, the university's short-term lines totaled CAD 18.2 million, compared to a peak of CAD 116.4 million in 2008. This reduction in its line of credit balance provides Concordia with greater flexibility if short-term borrowing is necessary. Additionally, in the event of an emergency the university has access to short-term loans from Financement-Québec, a provincial Crown Corporation set up for the purpose of financing universities and hospitals.

Application of Joint-Default Analysis

As a reflection of the application of Moody's joint-default analysis rating methodology for government-related issuers, Concordia University's Aa2 debt rating is composed of two principal inputs: a baseline credit assessment (BCA) of a1 and a high likelihood of support that the Province of Québec (Aa2, stable) would act to prevent a default by the university. The high likelihood of support reflects Moody's assessment of the risk posed to the province's reputation as a regulator of the university sector if Concordia University, or any other Québec university, were to default.

Rating History

Concordia University, Quebec

Date	Rating
November 2006	Aa2
June 2006	Aa3
July 2002	A1

Annual Statistics

Concordia University, Quebec

Debt Statement (C\$000s, As At 31/05)	2009	2010	2011 ^[1]	2012	2013
Bank Overdraft	1,627	1,863	4,018	0	0
Short-Term Line of Credit ^[2]	65,600	72,111	56,615	69,264	18,200
Grant Bonds	300,355	312,625	319,624	295,028	352,301
Other Bonds	196,886	197,521	217,583	219,266	218,461
Total Direct Debt	564,468	584,120	597,840	583,558	588,962
Less					
Amounts Guaranteed By Quebec	278,350	288,368	298,289	280,279	337,963
Associated Sinking Funds Paid by Quebec	22,005	24,257	21,335	14,749	14,338
Net Direct Debt^[3]	264,113	271,495	278,216	288,530	236,661
Less: Short-Term Line of Credit	65,600	72,111	56,615	69,264	18,200
Net Direct Debt (Net of Short-Term Lines of Credit)^[3]	198,513	199,384	221,601	219,266	218,461

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] A significant portion of short-term borrowing is carried out in advance of grant bonds.

[3] Amounts netted off total direct debt excludes sinking funds set aside at the Concordia University Foundation, which amounted to \$36.1m in 2013.

Concordia University, Quebec

Debt Trends (As At 31/05)	2009	2010	2011 ^[1]	2012	2013
Net Direct Debt per Student (C\$, per FTE)	10,645	10,432	10,352	10,560	8,499
Net Direct Debt as a % of Revenue ^[2]	61.0	60.9	62.3	57.5	47.4

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] Revenues net of provincial debt service subsidies.

Concordia University, Quebec

Market Demand Trends	2009	2010	2011	2012	2013
Total Enrolment (FTE)	24,811	26,026	26,876	27,322	27,846
Undergraduate Students	21,948	22,927	23,563	23,876	24,382
Undergraduate Students as a % of Total	88.5	88.1	87.7	87.4	87.6
Selectivity (%) ^[1]	64.0	65.6	65.9	63.3	63.9
Matriculation (%) ^[2]	69.0	64.8	60.3	61.2	60.1

[1] Number of acceptances divided by number of applicants.

[2] Number of students enrolling divided by number of acceptances.

Concordia University, Quebec

Income Statement (C\$000s, Year Ending 31/05)	2009	2010	2011 ^[1]	2012	2013
Revenues^[2]					
Tuition	75,914	85,178	94,582	102,693	107,828
Provincial Operating Grants	215,035	224,145	211,795	234,057	231,735
Other Provincial Grants	40,034	19,932	26,766	42,563	27,229
Research Grants and Contracts	28,362	30,774	28,894	31,137	33,495
Donations	2,709	7,277	5,992	5,379	6,724
Auxiliary Enterprises	23,060	23,326	23,471	24,224	24,644
Concordia University Foundation	4,922	3,138	5,092	6,118	6,098
Other	61,519	67,263	64,037	71,461	74,297
Total Revenues	451,555	461,033	460,629	517,632	512,050
Expenses^[2]					
Academic Services	195,455	204,659	195,190	217,973	223,626
Administrative Services	74,933	66,642	74,509	78,582	88,395
Research	36,167	38,292	38,091	41,029	47,798
Auxiliary Services	16,336	16,121	15,818	16,021	16,584
Interest Payments	13,783	13,175	12,176	13,176	13,115
Other Interest Payments ^[3]	18,869	15,133	13,996	15,677	12,955
Amortization	31,014	32,308	31,623	34,839	36,434
Concordia University Foundation	7,507	5,912	8,075	9,648	10,793
Pension and Other Retirement Plans	18,170	29,144	34,440	36,044	67,116
Other	24,218	54,999	27,698	35,904	39,399
Total Expenses	436,452	476,385	451,616	498,893	556,215
Net Income	15,103	(15,352)	9,013	18,739	(44,165)
Adjusted Revenues ^[4]	432,686	445,900	446,633	501,955	499,095
Adjusted Expenditures ^[4]	417,583	461,252	437,620	483,216	543,260
Adjusted Net Income	15,103	(15,352)	9,013	18,739	(44,165)
Funds From Operations	35,714	26,087	55,903	60,294	34,009
Free Cash Flow	(8,771)	(16,957)	(10,087)	3,975	(7,778)

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] Includes operating and restricted funds.

[3] Offset by provincial subsidies.

[4] Net of provincial debt service subsidies. Not adjusted for capital expenditures recorded in-year.

Concordia University, Quebec

Financial Trends (Year Ending 31/05)	2009	2010	2011^[1]	2012	2013
Government Funding for Operations as a % of Revenue ^[2]	49.7	50.3	47.4	46.6	46.4
Net Tuition as a % of Revenue ^{[2][3]}	17.5	19.1	21.2	20.5	21.6
Interest Expense as a % of Revenue ^{[2][4]}	3.2	3.0	2.7	2.6	2.6
Debt Service as a % of Revenue ^{[4][4]}	3.2	3.0	2.7	2.6	2.6
Research Grants as % Revenue ^[2]	6.6	6.9	6.5	6.2	6.7
Funds From Operations as a % of Revenue ^[2]	8.3	5.9	12.5	12.0	6.8
Annual Operating Margin (%)	3.5	(3.4)	2.0	3.7	(8.8)
Average Operating Margin (%)	(1.8)	(1.8)	0.7	0.8	(1.0)
Funds From Operations/Interest (x)	2.6	2.0	4.6	4.6	2.6

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] Revenues net of provincial debt service subsidies.

[3] Tuition revenues before scholarship expenses.

[4] Interest net of provincial subsidies.

[5] Principal repayments are net of provincial subsidies.

Concordia University, Quebec

Balance Sheet (C\$000s, As At 31/05)	2009	2010	2011 ^[1]	2012	2013
Assets					
Cash and Cash Equivalents	-	-		2,544	474
Investments	30	35	6,844	7	45
Receivables	20,215	22,486	24,526	17,887	14,430
Due from the Province of Quebec	200,257	189,831	183,241	176,713	170,174
Capital Assets	623,961	638,556	695,850	731,142	745,430
Other Assets	186,522	180,330	199,841	188,828	23,996
Total Assets	1,030,985	1,031,238	1,110,302	1,117,121	954,549
Liabilities					
Bank Overdraft	1,627	1,863	4,018	-	-
Bank Loans	65,600	72,111	56,615	69,264	18,200
Long-Term Debt	475,236	485,889	515,872	499,545	556,424
Deferred Contributions	66,633	76,610	94,381	110,839	114,117
Future Benefits	74,840	77,761	83,287	89,738	128,251
Other Liabilities	282,698	268,239	297,081	270,627	103,769
Total Liabilities	966,634	982,473	1,051,254	1,040,013	920,761
Net Assets					
Unrestricted Deficit	(112,307)	(127,856)	(140,047)	(146,166)	(190,953)
Internally Restricted	29,140	33,989	52,377	60,002	60,543
Externally Restricted	244	11	1,979	1,079	1,453
Invested in Capital Assets	147,274	142,621	144,739	162,193	162,745
Total Net Assets	64,351	48,765	59,048	77,108	33,788
Foundation Assets and Fund Balances					
Cash and Cash Equivalents	6,171	16,253	16,932	20,075	22,522
Investments ^[2]	94,847	108,716	115,922	107,316	119,805
Internally Restricted ^[2]	2,610	2,650	2,819	2,437	2,481
Restricted ^[2]	24,679	45,595	54,684	51,125	65,569
Endowment ^[2]	60,396	62,582	64,359	66,930	68,549

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] Market value.

Concordia University, Quebec

Balance Sheet Trends (As At 31/05)	2009	2010	2011^[1]	2012	2013
Total Cash and Investments (C\$, '000s) ^[2]	101,047	125,003	139,699	129,942	142,846
Total Cash and Investments Per FTE (C\$)	4,073	4,803	5,198	4,756	5,130
Net Cash and Investments (C\$, '000s) ^[3]	2,610	2,650	2,819	2,437	2,481
Net Cash and Investments per FTE (C\$)	105	102	105	89	89
Net Cash and Investments-to-Operations (x)	0.006	0.006	0.006	0.005	0.005
Net Direct Debt					
Total Cash and Investments-to-Net Direct Debt (x)	0.38	0.46	0.50	0.45	0.60
Net Cash and Investments-to-Net Direct Debt (x)	0.01	0.01	0.01	0.01	0.01
Net Direct Debt as a % of Revenue ^[4]	61.0	60.9	62.3	57.5	47.4
Net Direct Debt per FTE (C\$)	10,645	10,432	10,352	10,560	8,499
Net Direct Debt (Net of Short-Term Bank Loans)					
Total Cash and Investments-to-Net Direct Debt (x)	0.51	0.63	0.63	0.59	0.65
Net Direct Debt as a % of Revenue ^[4]	45.9	44.7	49.6	43.7	43.8
Net Direct Debt per FTE (C\$)	8,001	7,661	8,245	8,025	7,845

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] Includes Concordia University Foundation.

[3] Net of unspent portion of debenture proceeds and externally restricted endowments; includes Concordia University Foundation.

[4] Revenue is net of provincial debt service subsidies.

Moody's Related Research

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Rate this Research



Report Number: 165050

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