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MORNINGSTAR | DBRS

RATING REPORT

Concordia University

Ratings

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

Rating Update

On November 13, 2019, DBRS Limited (DBRS Morningstar) changed the trend on Concordia University's (Concordia or the University) Issuer Rating and Senior Unsecured Debt rating to Positive from Stable and confirmed both ratings at "A."

The trend change reflects a combination of the (1) improving provincial operating grant funding combined with the rating upgrade on the Province of Québec (the Province; rated AA (low) with a Stable trend by DBRS Morningstar); (2) stronger growth in domestic tuition fees and deregulation of international tuition fees; and (3) improving operating results, which reflect the improving funding environment and the deficit-reduction measures adopted by the University in recent years. DBRS Morningstar will likely upgrade Concordia's Issuer Rating and Senior Unsecured Debt rating within the next 12 months if the outlook for funding environment and operating results remains favourable.

Concordia's finances continue to progress through a period of adjustment. Between 2010–11 and 2015–16, the Province reduced funding to the university sector as part of its broader deficit-reduction efforts, prompting a significant deterioration in the University's finances and requiring significant budgetary constraint and reforms. The Province began restoring lost funding in 2017–18 and has announced favourable changes to the tuition fee framework. As a result of the expense-management initiatives and an improved revenue outlook, operating losses have gradually declined and the outlook is increasingly positive.

Concordia posted an adjusted deficit of $10.7 million in 2018–19, modestly better than the $11.0 million loss in the prior year. Higher revenue from solid growth in tuition fee revenue, higher government grants and stronger donations and investment income were offset by broad-based growth in expenses as the University continued to invest in growth initiatives. The outlook for 2019–20 has improved and Concordia projects a return to a modest surplus of $1.2 million on a narrower operating budget basis, suggesting that the adjusted consolidated result is likely to improve further.

Continued on P.2

Financial Information

	For the year ended April 30				
	2019	2018	2017	2016	2015
Consolidated operating result (DBRS-adjusted, $ millions)[1]	(10.7)	(11.0)	(17.1)	(28.2)	(33.6)
Surplus-to-revenue (five-year average)	-3.7%	-2.3%	-3.1%	-1.9%	-0.5%
Debt per FTE ($)	13,062	9,919	10,264	10,380	9,688
Interest coverage	3.2	3.3	3.7	2.0	2.1
Expendable resources to debt (times)	18%	19%	18%	21%	31%

1. FY2017 loss excludes a one-time expense of $13.6 million for the voluntary retirement program. FY2015 loss excludes a one-time expense of $8.8 million for the voluntary departure program.

Issuer Description

Concordia is one of three English-language universities in Québec. Located in Montréal, the University offers over 588 programs at both the undergraduate and graduate levels at its downtown campus (Sir George Williams) and west-end campus (Loyola).

Rating Update (CONTINUED)

DBRS Morningstar expects the University's finances to show steady, albeit modest, improvement over the medium term. Revenue growth is likely to strengthen with growth in provincial grants and deregulation of most international student fees, but will be partially offset by rising salary and wage costs resulting from the recent renewal of the faculty collective agreement, which provided more significant compensation increases in consideration of past salary constraint and pension reform.

Concordia's debt burden increased in recent years because of operating losses and ongoing capital expansion. The University's debt-to-full-time equivalent (FTE) rose to $13,062 in 2018–19 and is projected to range between $13,000 and $13,500 over the next three years. Concordia indicated that it may issue new market debt in the coming years as it seeks to rebalance its debt profile, but is unlikely to meaningfully increase its overall level of University-supported debt beyond current levels.

DBRS Morningstar is likely to upgrade the University's Issuer Rating and Senior Unsecured Debt rating within the next 12 months if the outlook for funding environment and operating results remains favourable. A combination of a weakened outlook on funding and tuition frameworks, deterioration in operating results and increased debt levels beyond current expectation may lead DBRS Morningstar to change the trend back to Stable.

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. As a result, the University has now tabled a balanced budget for 2019–20. Concordia also recently engaged a new auditor and plans to improve its transparency and financial reporting practices.

4. Québec's strong 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 about 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. Between 2010–11 and 2015–16, the Province reduced base operating funding to universities without providing a meaningful offset through higher tuition fee increases, which led to a significant deterioration in operating results and prompted various cost-cutting measures at Québec universities. The outlook has improved in recent years.

2. Significant debt burden
The University's total debt burden rose by $100 million to $767 million in 2018–19. 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 $391 million in 2018–19, equivalent to $13,062 per FTE, which is higher than average for DBRS Morningstar-rated universities.

Rating Considerations (CONTINUED)

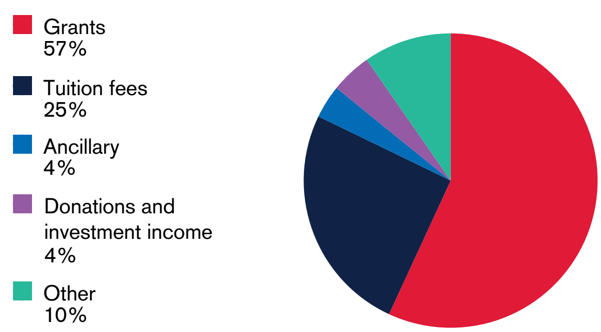
3. Limited balance sheet flexibility
Concordia has a relatively weaker balance sheet than many DBRS Morningstar-rated universities in Canada, partly reflecting Québec's more constrained operating environment. Concordia's net asset position has stabilized since funding reductions earlier in the decade and now appears likely to improve modestly. Similarly, the University has relatively modest expendable resources, equivalent to 18% 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.

2018–19 Operating Performance

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. The Foundation is not included in Concordia's reporting entity and, as such, its financial statements do not reflect $204.4 million in net assets held by the Foundation or $26.2 million in net income. The Foundation's assets have grown materially over the past several years and are now equivalent to nearly 30% of the University's balance sheet. Concordia also exercises significant control of the Foundation's activities. Consequently, DBRS Morningstar adjusts Concordia's financial statements to reflect the Foundation's activities and holdings, which is intended to improve consistency across rated universities. With this review, DBRS Morningstar revised its approach to consolidating the Foundation's financial statements and restated five years of results.

Exhibit 1: 2018–19 Revenue by Source



In 2018–19, Concordia posted an adjusted deficit of $10.7 million, modestly better than the $11 million loss in the prior year. Because of major provincial funding reductions during the 2010–11 to 2015–16 period, the University has reported losses for much of the past decade, although losses have now begun to decline.

Adjusted revenue jumped by 11.4% to $641.6 million, owing to growth in tuition fees, higher government grants and stronger donations and investment income. Tuition fee revenue increased by 9.4%, led by increases in tuition fees and ongoing enrolment growth (+1.5%). In 2018–19, Concordia increased tuition fee rates by 2.7% for students in regulated programs (Québec and international students) and by 3.3% for Canadian students from outside Québec, French and Belgian students and for students in international deregulated programs.

Demographics remain a challenge for universities in Québec. Concordia noted a modest decline in domestic undergraduate enrolment, which was offset by growth in international undergraduate enrolment.

In May 2018, the Province committed $1.5 billion in additional funding for Québec universities over the subsequent six-year period. As a result, grants to Concordia increased by over 10% in 2018–19.

Adjusted expense rose by 11.2%, rebounding after several years of significant cost restraint. The University implemented hiring and other restraint measures to reduce its operating deficits and balance the budget. Although expense growth in 2018–19 was broad based, the key contributors remained academic services (+10.7%), research (+16.5%) and an additional $7.7 million of expensed capital purchases as the University continues to grow its capital footprint.

Following multiple years of a deteriorating net asset position, the University's adjusted net assets improved to $95.3 million (+3.1%) in 2018–19. The improvement reflects gains in the endowment and other restricted funds of the Foundation, which were sufficient to offset the loss from adjusted operations.

Operating Outlook

Concordia uses fund accounting in accordance with Canadian accounting standards for not-for-profit organizations. The University has four funds: (1) operating (academic and administrative services), (2) research, (3) designated (funds received from external entities for specific purposes imposed by the outside donor or party) and (4) capital.

The operating fund accounts for about three-quarters of total expense. The University presents an operating budget on an accrual basis, though it is not fully consistent with the presentation of the operating fund within the audited financial statements or with the adjusted results presented in this report.

2019–20 Budget

The 2019–20 operating budget, which was approved in May 2019, remains anchored in the University's commitment to attain balanced results and to its ongoing strategic priorities. The budget projected a modest surplus of $1.2 million — the first in several years and earlier than anticipated. Concordia plans to eliminate the accumulated deficit of $23 million in the operating budget by generating modest operating budget surpluses through the medium to longer term.

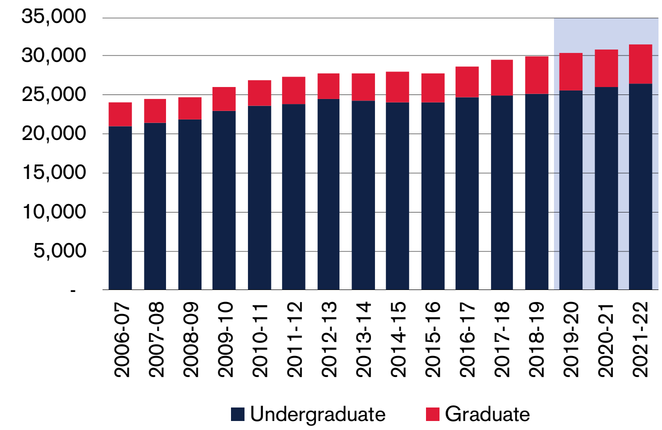
Concordia expects enrolment to grow by roughly 1,000 weighted FTEs (WFTEs; equivalent to about 500 raw FTEs) in 2019–20. Following robust enrolment growth of over 700 FTEs per year in the past two years, enrolment is forecast to settle at a moderately stable 500 raw FTEs per year over the medium term. The University expects the proportion of international students to remain stable around current levels (20%). The 2019–20 operating budget includes nearly $2 million of recurring fee remissions and scholarships for international students.

Operating revenues are estimated to increase by 7.8% compared with the prior year's budgeted revenue, primarily led by gains in international enrolment and tuition fee increases. Expenses are projected to grow by 7.2% with salaries, benefits and spending toward facilities, utilities and maintenance as key contributors. Government operating grants are projected to rise modestly, reflecting new university-sector funding and funding to offset inflationary pressures.

Medium-Term Outlook

The operating environment for Québec universities has improved over the past two years. In 2018, the Liberal government at the time announced changes to make the funding formula simpler, fairer, more efficient and more transparent. The government also expressed its intention to improve accessibility, quality and the position of Québec universities in the global context. The Coalition Avenir Québec government, elected in October 2018, has maintained the policy direction set out by the previous Liberal government. The changes are positive for Concordia's credit profile.

Exhibit 2: Enrolment (Raw FTEs)



Government Grants (Reinvestment)

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, Concordia will have received $21.7 million by 2019–20.

Funding and Tuition Fees for Domestic Students

The Province recently simplified and reweighted the allocation formula used to distribute operating grants across the sector. The Province also announced new funding for smaller institutions that have faced greater challenges because of weak demand/demographics. For Concordia, these changes had a small positive impact on revenue.

The Province continues to permit universities to increase tuition fees for Québec residents by an amount equivalent to growth in a provincially defined measure of household disposable income. Tuition fees in Québec remain among the lowest in the country, but the pace of tuition fee increases for domestic students has quickened with the general strengthening of the provincial economy in recent years. In 2019–20, residents of Québec will be subject to a tuition fee increase of 3.6%.

Funding and Tuition Fees for International Students

The Province has implemented more pronounced changes for international student funding and tuition fees. In March 2019, Québec simultaneously eliminated grant funding for international students (excluding those from France and Belgium) in undergraduate and professional and non-research graduate programs and deregulated tuition fees for those students.

In the past, a portion of the tuition fee revenue from international and out-of-province students in regulated programs was also remitted to the Province, somewhat limiting the benefit of higher international tuition rates. Following the deregulation of tuition fees for international students, the Province will no longer claw

Operating Outlook (CONTINUED)

back a portion of the higher fees, providing universities with both the flexibility and incentive to pursue international enrolment and raise tuition fees.

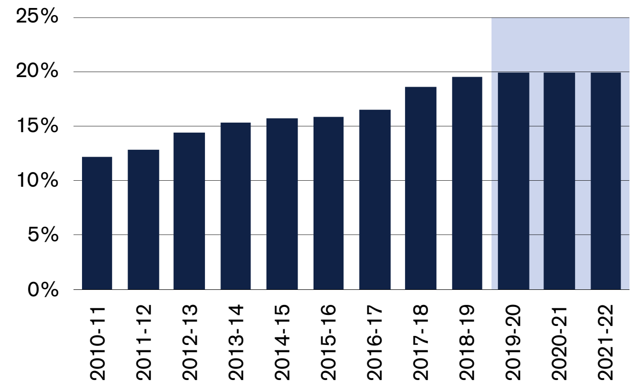
The elimination of grants will reduce annual funding by an estimated $6.6 million per year. As a transitionary measure, the Province will provide the University with a nonrecurring grant in 2019–20 ($4.2 million) and in 2020-21 ($2.2 million). Going forward, Concordia expects to offset this loss primarily through enrolment growth and fee increases, including an annual increase in tuition of up to 8.25% for future international deregulated students, depending on the program.

Concordia is exploring options to enhance predictability of tuition rate increases, including the implementation of an incremental tuition rate increase for international undergraduate students and a flat-rate fee increase for students in professional and non-research Master's programs.

The changes to the University funding and tuition fee frameworks do not materially change its outlook for enrolment growth. The University continues to envision annual enrolment growth of about 500 FTEs per year through the medium term.

Concordia's international student population has grown steadily over the past decade, rising to about 20% of the student body in 2018–19 from about 12% in 2010–11. The University expects to maintain the proportion of international students at current levels. Unlike most universities, Concordia has a more diversified mix of international students with no single country of origin accounting for more than 20% of its international students. India, China, France, Iran and the United States are the University's largest source countries for international students.

Exhibit 3: International Enrolment (%)



The University's strategic direction has been stable in recent years, guided by its *9 Strategic Directions*, though some modest changes are likely with the forthcoming change in leadership. In November 2018, Concordia announced that its president, Alan Shepard, would leave the University on June 30, 2019, after seven years of service to become the president of the University of Western Ontario. Concordia has established a search committee and hired an agency to lead the search for a new president, who is expected to be in place ahead of the 2020–21 academic year. Concordia's provost, Graham Carr, is currently serving as interim president.

Earlier in 2019, the University concluded a new collective agreement with the Concordia University Faculty Association (CUFA). This set the precedent for Concordia's other 12 collective agreements, many of which were approved in the past few months. As expected, the new agreement provides relatively strong salary increases (12.0% cumulatively over three years) in consideration of past salary constraint and the University's commitment to share pension reform savings with employees in exchange for improved cost and risk sharing in the future.

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.

Annual investment varies with the commencement and completion of major projects. In 2018–19, capital investment totalled $45.2 million, slightly lower than the University's five-year average. During the year, the most significant capital project was the construction of the applied science facility at Loyola (Science Hub), partly funded by the Post-Secondary Institutions Strategic Investment Fund (PSISF; estimated cost of $62.0 million). The University plans to complete the facility in early 2020. Other significant capital projects included ongoing enhancements to Concordia's information technology (IT) systems, 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 University does not have any other major construction projects planned for the near term, but indicated that it will seek to increase residence capacity over the medium term. Concordia plans to add 500 beds at its downtown campus and 300 beds at

Capital Plan (CONTINUED)

its Loyola campus. The University will likely use an alternative ownership structure or financing to construct new residence space. The use of private-public partnerships or off-balance sheet structures is becoming more common in the university sector as universities preserve their balance sheets for research- and academic-related infrastructure.

The 2018–19 to 2021–22 Capital Plan, approved by the Board of Governors in May 2019, identified approximately $325 million in capital projects over the four-year period, up 9% from the prior year's plan. The plan is an iterative document that evolves with changes in the operating and funding environment. Capital investment is likely to remain strong over the next few years, although the University is often unable to fully implement the program, resulting in the deferral of some projects.

The University's capital priorities are also likely to shift further 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. In recent years, the University has acquired real estate around its downtown campus to support future growth. 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 (2015) resulted in an estimated facility condition index (FCI) of 19.8%, which is slightly weaker than the Québec average of 19.0% and 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.

Excluding the two buildings, Concordia has an FCI of around 10%. 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.

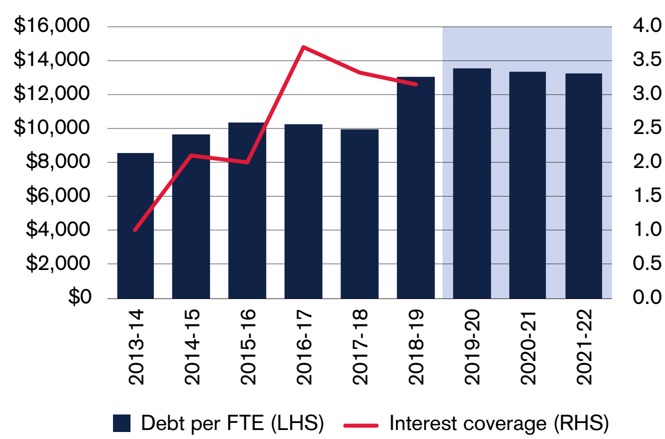
Debt and Liquidity

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 by funded provincial capital grants to the university. The debt 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 set its internal limit on university-supported debt at $12,000 per FTE (net of sinking fund assets) over the medium term. The limit equates to a DBRS Morningstar debt-to-FTE ratio of about $14,000.

As at April 30, 2019, Concordia's university-supported debt burden increased to $390.7 million (or $13,062 per FTE), which is materially higher than the prior year ($9,919 per FTE). In February 2019, the University issued $75 million in long-dated debentures, mainly to support its extensive capital investments

Exhibit 4: Debt per FTE and Interest Coverage



and to retire some of its existing credit facilities. The issuance was split across two series of debentures:

- $50.0 million 3.678% Series B Senior Unsecured Debentures due December 10, 2059, the proceeds of which will used to finance real estate and IT infrastructure projects and to repay a portion of the credit facilities previously used to fund these projects.

Debt and Liquidity (CONTINUED)

- $25.0 million 3.626% Series C Senior Unsecured Debentures due December 10, 2039, the proceeds of which will be used to fund the University's sustainability strategy (i.e., environmental, social and corporate governance objectives).

The University is required by law to establish a sinking fund for the repayment of university-supported debt issued in 2019. Since the sinking fund is not held by a trustee that can guarantee the integrity of the funds until the maturity of the debt, 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 would, however, be 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 $66.1 million in assets at April 31, 2019, and is held by the Foundation. Concordia projects annual contributions of nearly $1.5 million to the fund over the longer term.
- **Equipment, Infrastructure and IT Platforms debt:** The University recently established a sinking fund at the Foundation to repay debt related to shorter-duration assets. Concordia transferred $42.0 million to the Foundation in July 2019 and expects to contribute $9.5 million annually to the fund.

University-supported debt interest expense has remained stable at slightly under 3.0% of total expense and the interest coverage ratio has remained stable close to 3.2 times (x). Among DBRS Morningstar-rated universities, Concordia's interest coverage is somewhat below average.

Concordia's debt retirement fund (sinking fund) and endowment fund are held by the Foundation. Concordia does not consolidate the results of the Foundation. Consequently, DBRS Morningstar adjusts the University's financial statements to include the Foundation's net assets, which totaled $204.4 million at April 30, 2019. The 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.

Although improving and not inconsistent with the current rating category, 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. DBRS Morningstar estimates Concordia's expendable resources to be $71.3 million, or 18.2% of university-supported debt, as at April 30, 2019. Expendable resources weakened in recent years because of operating losses, but have begun to track higher as operating losses have narrowed and reserves are set aside.

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.

The most recent financial statements show a modest deterioration in the pension plan's funding status with the deficiency rising to $66.3 million from $63.2 million over the past year.

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, 2018, includes broad-based changes to actuarial assumptions related to discount rate, inflation rate, salary scales and pensionable earnings, which led to a lower unfunded liability of $110.5 million compared with $112.9 million as of December 31, 2015. On a preliminary basis, total required contributions payable in 2020 are estimated at $58.4 million —higher than the $53.3 million as of the prior valuation that became payable in 2018–19. Funded status on a going-concern basis marginally improved to 89.7% from 88.2% as at December 31, 2015.

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 post-retirement benefits (e.g., life and health insurance). These benefits are paid on a pay-as-you-go basis and Concordia is not required

Debt and Liquidity (CONTINUED)

to set aside funds against the liability. As at April 30, 2019, the University's liability for these plans totalled $124 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 indicated that it does not plan to materially increase its university-supported debt in the coming years, but that it may issue new market debt as part of an ongoing effort to rebalance its liability profile. Concordia is targeting a 70/30 mix for long-term and short-term debt. DBRS Morningstar expects the University-supported debt-to-FTE to remain range bound between $13,000 and $13,500 over the next three years.

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 86% of total revenue in 2018–19.

Provincial government funding remains one of the primary sources of revenue for universities across the country, but its relative importance has diminished because of strained provincial finances. Over time, this has led to a gradual shift in the relative shares of revenue. Operating grants have declined in significance while tuition fees have increased.

Government Funding (Provincial and Federal, 57%): 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. In 2018–19, Concordia's teaching grant was $226 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 2018–19, the support grant was $54 million.
- **Maintenance (land and buildings):** Provided largely based on the floor space that is recognized for funding purposes. In 2018–19, the grant was $40 million.

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. The reductions, particularly when announced mid-year, posed significant challenges for the sector, given the largely fixed structure of the university expense base (i.e., tenured faculty and a large capital stock). Concordia made significant changes to both academic and non-academic expense centres which, accompanied by government reinvestment, have enabled the University to balance its 2019–20 budget.

The federal government typically provides 65% to 75% of all public research funding. The federal government's 2019 budget announced additional funding support of $114 million over five years through research scholarships, in addition to several other measures to improve the affordability of post-secondary education in Canada, which suggests that some funding growth for the university sector is likely forthcoming.

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.

Both the federal and provincial governments announced new funding for post-secondary capital in their 2016 budgets. The federal government announced a $2.0 billion PSISF that will support up to 50% of eligible costs for shovel-ready projects that enhance research and innovation capacity or improve environmental performance and can be completed within two years. Québec announced its plan, *Education: A Plan for Success*, which includes $700 million to improve and renovate facilities, a portion of which will be allocated to universities.

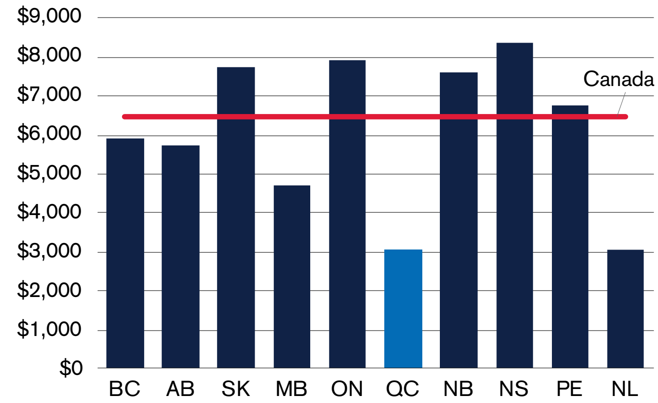
Tuition Fees (25%): Tuition fees are low in Québec, which reflects past policy decisions by the Province that limited increases. The current approach to fee increases has been in place since 2012. The Province has a formula-driven approach, which seems unlikely to change over the medium term after the widespread student protests that occurred in 2012. The system provides 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 2019–20, tuition fees for residents of Québec will rise by 3.6%.

University Funding in Québec (CONTINUED)

- **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 2019–20, tuition fees for students from other provinces will increase by 4.25%.
- **International students:** The Province deregulated tuition fees for international students in programs other than research-based masters and doctoral programs. For 2019–20, Concordia modestly increased tuition rates for certain professional and non-research Master's program enrolments with fee increases set between 4.25% and 8.25% based on the program.

Exhibit 5: 2019-20 Average Undergraduate Tuition Fees



Source: Statistics Canada.

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 no longer claw back a portion of the higher fees, incenting universities to seek international students and raise tuition fees. 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.

Donations and Investments (4%): 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), which seeks 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.

Concordia witnessed stronger donation activity during 2018–19 than in previous few years. The University received $11.8 million (versus $7.9 million in 2017–2018) in unrestricted donations, a further $12.1 million ($2.6 million in 2017–18) in endowment contributions and expects a major donation in late 2019. Owing to higher contributions and investment earnings, the endowment's market value rose to $114 million (+16.3%) as at April 30, 2019. 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 Financial Position (Adjusted)

CAD thousands

	As at April 30				
Assets	**2019**	**2018**	**2017**	**2016**	**2015**
Cash and cash equivalents	61,341	12,184	33,648	22,261	16,069
Grants and accountables receiveable	85,074	76,576	66,873	66,544	68,838
Prepaid expenses and other assets	9,628	9,512	8,466	9,956	7,955
Amount receiveable from MEES	69,785	72,183	80,377	119,715	124,445
Investments	233,224	176,737	165,454	150,398	154,814
Tangible capital assets	852,656	806,581	795,192	792,490	782,183
Intangible capital assets	23,026	24,820	26,241	27,589	29,064
Other assets	3,548	3,520	3,648	-	-
Total assets	**1,338,281**	**1,182,112**	**1,179,899**	**1,188,953**	**1,183,368**

Liabilities and Net Assets

Liabilities					
Payables and other current liabilities	113,123	89,991	92,033	67,419	61,366
Unearned revenue	27,320	16,405	13,735	12,341	13,761
Bank loans	133,400	101,200	105,000	106,500	65,800
Long-term debt	633,694	566,091	564,953	556,608	577,255
Deferred contributions	145,128	133,991	124,248	127,323	122,858
Employee future benefit liability	190,305	182,024	161,803	193,791	170,505
Total liabilities	**1,242,970**	**1,089,702**	**1,061,772**	**1,063,982**	**1,011,545**
Net Assets					
Unrestricted	(113,623)	(109,946)	(106,379)	(85,502)	(66,552)
Employee future benefits	(190,305)	(182,024)	(161,803)	(193,791)	(170,505)
Internally restricted	184,887	165,187	160,172	147,178	151,426
Invested in capital assets	125,228	136,993	143,250	169,029	171,877
Endowment	89,129	81,918	79,290	78,024	75,386
Consolidation adjustment	(5)	282	3,597	10,032	10,190
Total net assets	**95,311**	**92,411**	**118,128**	**124,971**	**171,823**
Total Liabilities and Net Assets	**1,338,281**	**1,182,112**	**1,179,899**	**1,188,953**	**1,183,368**

Note: The Foundation is not included in the University's reporting entity. Consequently, DBRS Morningstar adjusts Concordia's financial statements by consolidating the Foundation's financial statements on a line-by-line basis.

Statement of Operations (Adjusted)

CAD thousands

	For the year ended April 30				
Revenue	**2019**	**2018**	**2017**	**2016**	**2015**
Tuition fees	162,178	148,302	131,583	124,372	122,527
Grants	365,019	330,970	315,870	307,055	304,255
Services to the community, etc.	62,123	58,215	59,729	55,111	55,178
Ancillary services and rental properties	23,457	23,578	24,065	24,437	25,278
Investment income	16,974	6,749	22,793	(2,869)	12,661
Donations	11,823	7,881	9,778	6,865	7,963
Total revenue	**641,574**	**575,695**	**563,818**	**514,971**	**527,862**
Expense					
Academic services	285,714	258,066	250,254	233,246	238,649
Research	73,803	63,370	57,428	55,764	56,599
Institutional support	96,861	89,713	85,386	82,525	87,830
Services to the community, etc.	29,975	28,053	27,246	26,446	26,947
Endowed and restricted projects	15,322	14,105	16,108	12,650	10,196
Employee future benefits	48,988	44,542	43,416	44,655	45,857
Ancillary services and rental properties	16,165	15,785	15,537	16,980	17,692
Expensed capital purchases	10,506	2,815	2,403	2,086	442
Interest expense	26,660	24,241	24,726	25,454	26,381
Amortization of tangible capital assets	44,141	42,431	41,291	40,045	38,925
Amortization of intangible capital assets	4,133	3,569	3,466	3,282	3,158
Total expense	**652,268**	**586,690**	**567,261**	**543,133**	**552,676**
Surplus (deficit)	**(10,693)**	**(10,996)**	**(3,443)**	**(28,162)**	**(24,814)**
Non-recurring revenue/(expenditures)[1]			(13,649)		(8,800)
DBRS Morningstar-adjusted surplus (deficit)	**(10,693)**	**(10,996)**	**(17,092)**	**(28,162)**	**(33,614)**

1. 2017-18 loss excludes a one-time expense of $13.6 million for the voluntary retirement program. 2014-15 loss excludes a one-time expense of $8.8 million for the voluntary departure program.

Note: The Foundation is not included in the University's reporting entity. Consequently, DBRS Morningstar adjusts Concordia's financial statements by consolidating the Foundation's financial statements on a line-by-line basis.

Calculation of Free Cash Flow

CAD thousands

	As at April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Operating balance before fund transfers	(10,693)	(10,996)	(3,443)	(28,162)	(24,814)
Amortization	48,274	46,000	44,757	43,327	42,083
Other non-cash adjustments	(18,403)	(23,004)	(10,810)	20,384	12,061
Cash flow from operations	**37,581**	**35,004**	**41,314**	**15,165**	**17,269**
Change in working capital	23,690	(14,898)	20,228	938	(1,411)
Operating cash flow after working capital	**61,271**	**20,106**	**61,542**	**16,103**	**15,857**
Capital expenditures	(45,175)	(83,811)	(5,133)	(55,508)	(65,587)
Free cash flow	**16,096**	**(63,704)**	**56,409**	**(39,405)**	**(49,730)**

Note: The Foundation is not included in the University's reporting entity. Consequently, DBRS Morningstar adjusts Concordia's financial statements by consolidating the Foundation's financial statements on a line-by-line basis.

Summary Statistics

CAD thousands

	For the year ended April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Total Enrolment (FTEs)[1]	29,911	29,482	28,757	27,908	27,960
Undergraduate	84%	85%	86%	86%	86%
Graduate	16%	15%	14%	14%	14%
Annual change (%)	1.5%	2.5%	3.0%	-0.2%	0.2%
Total staff (FTEs)[2]	**3,606**	**3,658**	**3,600**	**3,458**	**3,507**
Academic staff	44%	45%	43%	43%	43%
Operating Results					
Recurring surplus (deficit) ($ thousands)	(10,693)	(10,996)	(17,092)	(28,162)	(33,614)
As % of revenues	-1.7%	-1.9%	-3.0%	-5.5%	-6.4%
Revenue Mix					
Government funding	57%	57%	56%	60%	58%
Tuition fees	25%	26%	23%	24%	23%
Ancilary	4%	4%	4%	5%	5%
Donations and Investment Income	4%	3%	6%	1%	4%
Other	10%	10%	11%	11%	10%
Debt					
Total debt ($ millions)	767	667	670	663	643
Debt serviced by Province ($ millions)	376	375	375	373	372
Debt serviced by University ($ millions)	391	292	295	290	271
Per FTE student ($)	13,062	9,919	10,264	10,380	9,688
Estimated university-supported interest charges ($ millions)	17.5	15.0	15.3	15.2	15.7
Interest charges supported by University/total exp.	3%	3%	3%	3%	3%
Interest coverage ratio (times)[3]	3.2	3.3	3.7	2.0	2.1
Expendable resources ($ millions)	**71.3**	**55.2**	**53.8**	**61.7**	**84.9**
As % of long-term debt serviced by the University	18%	19%	18%	21%	31%
Endowment Funds					
Total market value ($ millions)	114	98	90	80	87
Per FTE student ($)	3,811	3,310	3,112	2,856	3,112
Payout rate	3.5	3.5	3.5	3.5	3.5
Annual return on assets	7.25	3.25	14.07	-2.59	7.94

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

	Current	2018	2017	2016	2015	2014
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debt	A	A	A	A	A	A

Related Research

- *Rating Public Universities* (May 2019).

Previous Report

- Concordia University: Rating Report, April 11, 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.dbrs.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.