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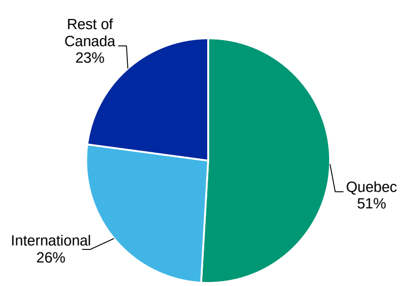
Higher Education – Canada

Quebec's planned tuition policy for fall 2024 is credit negative for McGill University and Concordia University

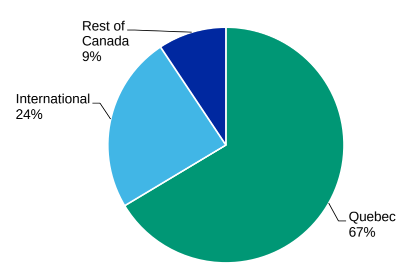
On 13 October, the Province of Quebec (Aa2 stable) announced changes to tuition fees for undergraduate and non-research graduate programs for non-Quebec residents. Effective fall 2024, the province will substantially increase the tuition fee for new, incoming Canadian students who are not residents of Quebec and impose a minimum tuition fee for new international students (except residents of France and Belgium who will remain unaffected). The changes are credit negative for McGill University (Aa2 stable) and Concordia University (Aa3 stable), the two English universities we rate in the province and which attract a high share of out of province students (see Exhibits 1 and 2). Through this policy change, the province expects it will be able to redistribute CAD110 million annually across all universities. However, in our opinion, McGill and Concordia bear downside risk in achieving this plan.

Exhibit 1
McGill sourced 49% of its undergraduate enrolment from outside of Quebec in 2022/23...



Source: McGill University

Exhibit 2
...while Concordia recorded 33% of total enrolment from outside the province in 2022/23.



Source: Concordia University

While complete funding details have not been formally presented by the province, the broad outline of the plan will increase the annual tuition fee for Canadian non-Quebec resident undergraduate and non-research graduate students to around CAD17,000 from approximately CAD9,000 currently. For international students, Quebec will impose a minimum annual tuition fee of approximately CAD20,000, although universities are able to charge above this fee.

The rise in the provincially set tuition fee for Canadian non-Quebec residents will result in both McGill's and Concordia's domestic tuition fees being the highest across Canadian universities, where average undergraduate domestic tuition fees do not exceed CAD10,000, putting downward pressure on demand. The University of British Columbia (Aa1 stable), for example, charged Canadian students slightly more than CAD7,200 for year one of its Applied Science program. The fall 2023 undergraduate Canadian tuition for all programs at the University of Toronto (Aa1 stable), except for Computer Science and Management, was CAD6,590. As Canadian universities have struggled to attract domestic students in recent years, we believe non-Quebec universities, on aggregate, have the capacity to accept price sensitive students who otherwise would have chosen McGill or Concordia. Across our global higher education portfolio we note that students are more attentive to the value proposition of education and are increasingly price aware. We therefore believe McGill and Concordia will face decreased demand from Canadian students. The potential demand decline is difficult to establish as Quebec has historically set equal tuition fees for Quebec students as well as Canada non-Quebec residents for all universities in the province, which has meant neither McGill nor Concordia have solid insight into the price elasticity for their demand from Canadian students.

Lower demand among Canadian non-Quebec students could also weaken the reputation and strategic brand of both universities by materially altering the compositions of students. In its initial response to the proposal, McGill noted that its intervarsity athletics teams rely significantly on out-of-province students. Should it be less successful at attracting top athletes, it may need to terminate certain teams. Additionally, McGill noted similar pressures for the Schulich School of Music, which recruits a substantial share (40%) of highly specialized students from outside of the province.

In contrast, the effect on demand from international students will likely be minimal. Effective 2019, Quebec deregulated most international programs, allowing each institution to independently set tuition fees for international students. In the case of McGill and Concordia, international tuition is, in general, above the CAD20,000 minimum the province will impose. Fall 2023 tuition for an international student studying fine arts at Concordia, for example, was CAD29,215.

Despite the increase in tuition fees for Canadian non-Quebec residents, we do not believe either McGill's or Concordia's per student revenue will rise, although this is where the lack of full funding details leads to uncertainty. Quebec strongly controls the funding of universities through a funding formula whereby Quebec claims a portion of tuition raised by each university and provides grant funding per student, with grant levels program-dependent. It is our understanding that for Canadian non-Quebec residents, the entire increase in tuition will be claimed by the province while the per student funding flowing to the university (its share of tuition plus government grants) will remain the same as current levels. The province indicated it would redistribute the additional tuition across the entire higher education sector.

However, it is our understanding that for international tuition, the net amount of revenue McGill and Concordia will record per student will result in a net decrease per student relative to the current levels. This is due to the change in policy from the current approach, whereby international tuition is not partly claimed by the province nor does the province provide grant funding for these students. Effective Fall 2024 this will change as international students will be subject to the same broad funding parameters as Canadian non-Quebec resident students. As such, the province will claim a portion of the tuition and provide funding for each international student. However, the universities' share of tuition plus government funding is expected to be lower than the full tuition charged, which the universities currently collect entirely, with the difference potentially up to CAD5,000 per student on average. While McGill and Concordia could conceivably raise their international tuition an equivalent amount to negate this impact, we believe this would lower their current competitiveness as they have already set tuition fees at competitive levels in the years following the 2019 deregulation of most international programs.

As the change only affects students not yet enrolled, it will take four years before the policy change is fully captured in the finances of each institution, which allows some time for McGill and Concordia to find mitigation efforts. However, any enrolment-oriented mitigation efforts are not without complications. Quebec has mandated that all Quebec universities have a student population comprising 55% of Quebec students. Should either university wish to increase out-of-province students, it would also need to increase Quebec-sourced students to maintain the necessary ratio of students. As demographic pressures continue to weigh on demand from Quebec students, this scenario is not likely to occur in the near future. Should McGill and Concordia attempt to mitigate the likely decrease in Canadian non-Quebec resident students by increased enrolment of international students, this too would be credit negative as it would further expose both schools to increased risk beyond their control, including from government policy changes concerning immigration, greater foreign exchange rate risk and geopolitical risks. Additionally, international students already account for approximately 25% of enrolment at both institutions, levels that are already above the median for Canadian universities.

Among the various goals of the new tuition policy stated by the province are the end of the subsidization of higher education for non-Quebec students (who frequently do not reside in Quebec once they graduate) and to achieve a better financial equilibrium across the province's higher education sector through a redistribution of international student tuition. Quebec noted that the three English universities in the province generated 69% of total international tuition collected by all Quebec universities between 2019 and 2022, while the 10 institutions within the Université de Québec network generated only 11.5%. The province anticipates that the planned tuition change will allow the entire higher education sector to benefit from the revenue generated by McGill's and Concordia's current strong demand among out of province students.

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