MORNINGSTAR | DBRS

Rating Report
Concordia University

DBRS Morningstar
January 27, 2023

Contents

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Ratings

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

Rating Update

On December 22, 2022, DBRS Limited (DBRS Morningstar) confirmed Concordia University's (Concordia or the University) Issuer Rating and Senior Unsecured Debt rating at "A." All trends are Stable. The ratings reflect Concordia's academic profile and the high level of support and oversight in post-secondary education exercised by the Province of Québec (Québec or the Province; rated AA (low) with a Stable trend by DBRS Morningstar). The ratings also reflect ongoing budgetary pressures amid an increasingly challenging operating environment and rising debt.

The University's credit profile had been improving prior to the Coronavirus Disease (COVID-19) pandemic. However, the 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 rising debt. These factors will erode ratings flexibility; however, DBRS Morningstar believes there is room within the current ratings to absorb anticipated pressures without resulting in a downward rating action.

In 2021–22, Concordia reported a consolidated deficit of $31.3 million, relative to the $21.0 million shortfall in the prior year. Although Concordia demonstrated spending prudence, expense growth continued to outpace revenues.

For F2023, the University has budgeted an operating deficit of $15.0 million. The University anticipates that provincial funding will remain a key source of revenue, representing more than 50% of total revenue. As at second quarter F2023, results were largely in line with the base budget, although the University noted ongoing pressures resulting from the pandemic, among other challenges. For fall 2023, Concordia anticipates a second consecutive year of declining total enrolment, in line with the broader provincial university sector given adverse demographic trends within Québec.

Operating budget deficits will likely linger over the medium term. Despite the Province providing some nonrecurring conditional grants, overall funding levels are largely unchanged. Concordia will address any future deficits through a combination of cost savings, reserve drawdowns/unspent government subsidies and mainly provincially approved short-term debt. Concordia has indicated that it will access debt for 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 used for capital purposes only.

Over the medium term, DBRS Morningstar estimates that university-supported debt-to-full-time equivalent (FTE) students could increase to more than $18,000. However, Concordia has indicated to DBRS Morningstar that actual capital spend — and university-supported debt financing — will likely be lower than forecast, and the University will continue to prioritize long-term operating and financial sustainability.

The ratings are placed solidly in the current "A" rating category. DBRS Morningstar could contemplate a positive rating action if the University is able to demonstrate effective deficit reduction strategies, rebuild expendable resources as calculated by DBRS Morningstar, or if debt growth is meaningfully lower than expected over the medium term. A negative rating action could result from a weakened outlook on funding and tuition frameworks, sustained deterioration in operating results, and/or increased debt levels materially beyond current expectations.

Financial Information

	For the year ended March 31				
	2022	**2021**	**2020**	**2019**	**2018**
Operating result (adjusted, $ millions)	(31.3)	(21.0)	(31.3)	(19.8)	(11.0)
Surplus-to-revenue (five-year average) (%)	-3.5	-3.2	-3.7	-4.0	-2.3
Debt per FTE ($)	15,230	13,875	13,837	13,009	9,857
Interest coverage ratio (times)	2.3	2.8	1.9	2.6	3.3
Expendable resources to debt (%)	6.9	6.4	3.9	5.6	18.9

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 more than 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 (including 2020 Times Higher Education Impact Rankings), 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. By 2025, the Concordia University Foundation (the Foundation) plans for its investment portfolio to transition to 100% sustainable/impact investments.

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. In recent years, the University changed its accounting policy to consolidate financial statements for its significant controlled entities, in particular the Foundation, to improve transparency and financial reporting practices. In addition, the University implemented a comprehensive budget model to reflect changing priorities led by an increasingly challenging operating environment.

4. 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, healthcare, 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 50% and 60% of revenue in recent years, while tuition accounts for about 30% to 35% 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. Québec universities remain in discussions with the Coalition Avenir Québec government to increase overall funding to the sector, with the Province indicating a possible revision to its funding allocation in the 2023 budget. In the absence of substantial new funding, the University forecasts consecutive operating deficits through the medium term driven by 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.), whereas provincially supported debt is issued in the university's name and funded by dedicated provincial capital grants. Concordia's university supported debt totalled $462.0 million in 2022–23, equivalent to $15,230 per FTE, which is higher than average for DBRS Morningstar-rated universities. Although Concordia's most recent forecast indicates that the debt burden will rise materially over the medium term, the University has indicated to DBRS Morningstar that actual debt growth should be lower than projections (which represent maximum thresholds for acceptable debt levels as agreed upon by the board). Following year-end F2022, the University entered into a $50 million interest rate swap loan agreement. With the replacement of provincially subsidized capital expenditure (capex) receivables with upfront capital reimbursement payments (effective January 2022) made directly to the University, this essentially represents a restructuring of provincially supported debt with no impact on total 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, consecutive deficits, and prior funding reductions. The University also maintains a sinking fund for long-term debt repayment ($79.6 million as at F2022) and a 10-year sinking fund for equipment/IT-related financing ($55.7 million) that is included in DBRS Morningstar's measure of expendable resources. As of April 30, 2022, DBRS Morningstar estimated Concordia's expendable resources to be 6.9% of university-supported debt. Starting in 2022–23, a new investment program, Cash Management Optimizer (CMO), seeks to expand investment opportunities and increase fiscal capacity/flexibility for the University in future years.

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. Following an accounting standard change relating to transfer payments, provincial subsidies for capital projects will now be expensed and effectively repaid by the end of the project (as opposed to the prior practice of amortizing it over the repayment period of the long-term debt). This change will eliminate the need for long-term borrowing, with subsidized projects being financed through temporary loans/lines of credit. As the University now receives upfront reimbursements, this short-term debt (despite being on the University's balance sheet) represents the portion that will be serviced by the Province under this new mechanism. The medium-term debt forecast presented in this report incorporates this shift from longer-term borrowing toward short-term loans. DBRS Morningstar notes that the Province remains committed to post-secondary education and will continue to provide the sector with subsidized capital financing.

Operating Performance

2023–24 Budget and Operating Outlook

Starting in June 2020, Concordia implemented a revised budget model to incorporate multifaceted 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.

This 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 formally presented a four-year integrated financing program that attempts to align the University's liquidity requirements with planned capital investments over this horizon (i.e., until 2024–25).

Under this approach, Concordia will prioritize the University's operating needs ahead of capital investments. DBRS Morningstar will continue to monitor this transition and ongoing compliance with stated financial sustainability goals amid a challenging operating environment.

The budget model includes an integrated funding framework that will act as the central funding framework for all institutional budgets. This framework introduces strategic debt-to-FTE as a key indicator that will be used to assess and maintain longer-term sustainability and comprises 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 (university-supported)/lines of credit to offset operating deficits. As of April 30, 2022, Concordia's reported net debt-to-FTE ratio was close to $5,964 (F2021: $5,700). 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, 2022, strategic net debt-to-FTE was $2,484 (F2021: $1,348).

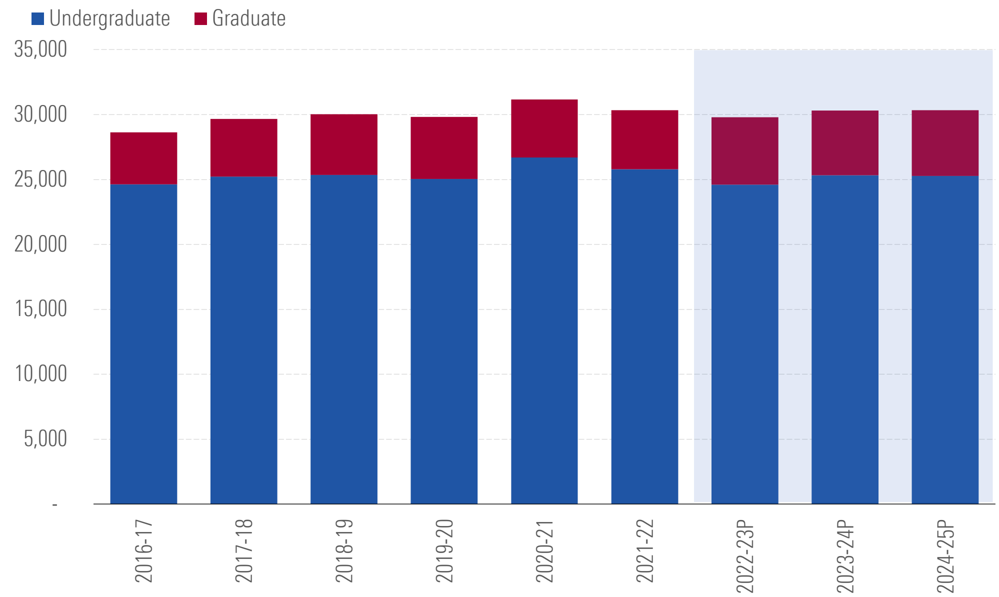
For F2023, the University has budgeted an operating deficit of $15.0 million. This base budget includes new investments in salary adjustments/indexation ($15.5 million), technology/cybersecurity ($2.1 million), support for capital investments ($7.5 million), among other operating priorities as well as $5.6 million in strategic investments (research expansion, instruction, faculty, sustainability, etc.) with potential future savings of approximately $1.6 million.

The 2022–23 budget does not include separate spending related to the pandemic. The University anticipates that provincial funding will remain a key source of revenue, representing more than 50% of total revenue (network average is approximately 66%). In March 2022, the Province committed about $23 million in one-time and catch-up funding. As a share of the overall network, Concordia will receive roughly 8.1% of the 2022–23 Québec grant. This amount is slightly lower than 8.5% in the prior year, in part, because of a decline in enrolment (resulting in provincial clawback) and also targeted grant supports for smaller-size peers.

As at second quarter F2023, results were largely in line with the base budget, although the University noted ongoing pressures resulting from the pandemic (including higher financial support for students), high insurance and interest costs, and added costs to comply with provincial regulations (such as monitoring benefits of technology projects until after five years of implementation).

For fall 2023, Concordia forecast a second consecutive year of declining total enrolment ranging between 1.2% and 2.5%. In October 2022, the Bureau de coopération interuniversitaire (BCI) indicated that student base in the Province will reduce by 1.7% during the 2022–23 academic year (2.2% decline in the prior year). This trend is mainly driven by adverse demographic trends within Québec, whereas students from the rest of Canada (+6.4%) and international students (9.7% from fall 2022) are set to increase.

Exhibit 1 Enrolment (FTEs)



P = projection.
Sources: Concordia and DBRS Morningstar.

Over the medium term, 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 (anticipating structural balance in 2025–26) and has indicated it 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. Québec universities remain in discussions with the Coalition Avenir Québec government to increase funding to the sector, with the Province indicating a possible revision to its funding allocation in the 2023 budget. Although University-specific details are unavailable, DBRS Morningstar believes the increased funding might help to mitigate some budget pressures.

2021–22 Results

The publication of Concordia's audited 2021–22 financial results was delayed by about two months in late 2022. DBRS Morningstar understands this was a one-off event following a year of transition to a centralized information system integrating (and streamlining) several organization processes (including auditing, payroll, procurement, and human resources management).

On a consolidated basis, the University posted deficits over much of the past decade because of major provincial funding reductions between 2010–11 and 2015–16. Unlike most Canadian universities, 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.

In 2021–22, Concordia reported a consolidated deficit of $31.3 million, relative to the $21.0 million shortfall in the prior year.

Total revenue increased (+4.9%), primarily driven by increased grant revenue (+7.1%); higher tuition revenues (+7.5%); services to community, students, and other income (+12.7%); ancillary services and rental properties (+132.7%); and donations (+66.2%). These increases were partly offset by lower investment income (-92.6%) that included unrealized losses of $19.5 million (unrealized gain of $46.2 million in the prior year). Revenues include $23 million in nonrecurring additional provincial grants targeted for specific objectives. Excluding these one-time grants, total revenue increased by 1.5% year over year. Demographics remain a challenge for universities in Québec, with many universities reporting second consecutive overall enrolment growth in F2022. At Concordia, enrolment dropped 2.7% after robust growth (+4.5%) in the previous year. Both unfavourable demographic trends and the ongoing pandemic adversely affected domestic first-year intake, while international student demand remained positive.

Government grants contribute the majority of the University's revenues. In recent years, provincial funding has increased as a result of targeted provincial measures to reinvest in post-secondary education and nonrecurring supports to offset some operating pressures from the pandemic.

Total expense was up (+6.3%) as spending increased across most categories. The University reported largest increases in academic services and supports (+5.6%); institutional services and supports (+23.3%); services to the community, students, and other expense (+19.8%); endowed and restricted projects (+2.1%); capital maintenance projects (+9.0%); amortization of tangible capital assets (+4.8%); and ancillary services and rental properties (+25.1%). As of April 30, 2022, net assets were $71.7 million (down from $117.9 million in the prior year).

Capital

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 2021–22, with capital investment totalling $94.2 million. Concordia completed the construction of the applied science facility at Loyola (Science Hub) in 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.

The University continues to invest in ongoing enhancements to Concordia’s IT systems, a payroll systems upgrade, facilities upgrades, the renovation of the Henry F. Hall Building (Hall Building; likely to continue until the end of 2025), and various deferred maintenance needs. The University estimated $110 million in new capital investment allocations between 2021–22 and 2024–25 mainly to be funded through unspent government subsidies.

The 2021–22 to 2024–25 Capital Plan identified approximately $351.2 million in capital projects over the four-year period, down from $361.6 million in the prior iteration (2020–21 to 2023–24). The University will seek to prioritize operational investments while limiting new capital allocations over the near to medium term. Roughly 59% of the planned capital costs will be funded through provincial and federal subsidies and grants, and private donations; approximately 23% of the total capital allocation is to be funded through sinking funds.

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 as it develops an integrated and comprehensive 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 resulted in an estimated facility condition index (FCI) of approximately 15%, which is comparable with the Québec average of 19.0%. 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 more than 50 years old.

The two buildings contribute to nearly half of Concordia's FCI. The University plans to continue investing in deferred maintenance with significant allocations to both the 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 a university in its own name and serviced by its general revenues (e.g., tuition fees, operating grants, etc.), whereas 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 university transfers to the trustee all right, title, and interest related to the debt-servicing grants. Concordia is subject to a provincially imposed debt limit of $1.0 billion (total debt excluding that borrowed in the form of loans or promissory notes) and the University implemented revised thresholds for acceptable levels of net debt per FTE.

As at April 30, 2022, Concordia's university-supported debt burden was $462.0 million (or $15,230 per FTE). Following year-end F2022, the University entered into a $50 million interest rate swap loan agreement. With the replacement of provincially subsidized capex receivables with upfront capital reimbursement payments (effective January 2022) made directly to the University, this essentially represents a restructuring of provincially supported debt with no impact on total debt.

For $265.8 million debentures maturing between 2039 and 2059, the University is required by law to maintain a sinking fund. As at April 30, 2022, the sinking fund for long-term debt repayment was valued at roughly $79.6 million. Because 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 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 $79.6 million in assets at April 30, 2022, and Concordia estimates contributions of $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 $55.7 million in assets at April 30, 2022. Concordia expects to contribute $7.5 million annually to the fund.

University-supported debt interest expense remained less than 3.0% of total expense, and the interest coverage ratio was 2.3 times (x) in F2022.

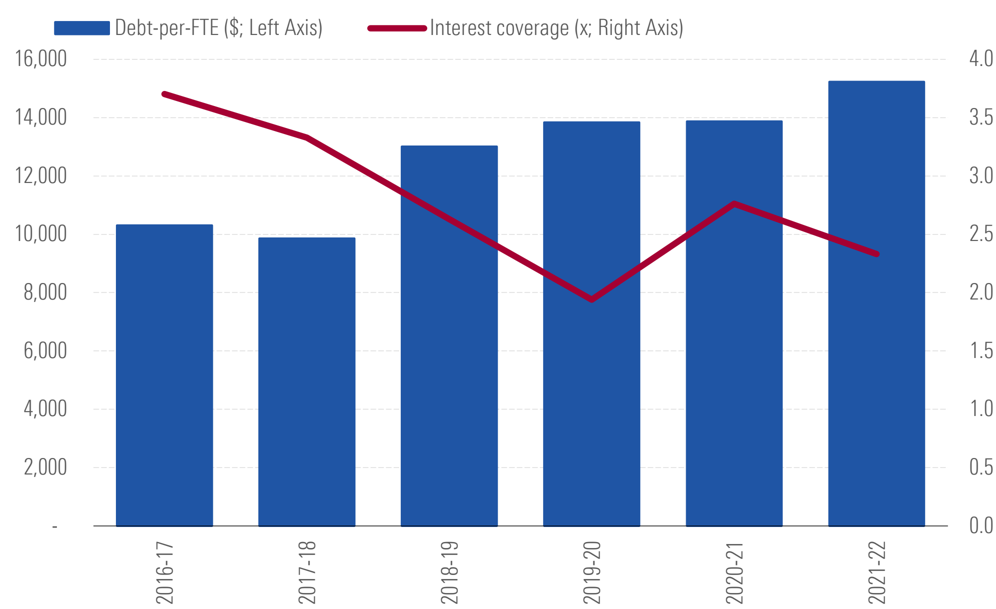
The Foundation holds Concordia's debt retirement fund (sinking fund) and endowment fund. Prior to F2019, Concordia did not consolidate the results of the Foundation. Consequently, DBRS Morningstar adjusted the University's financial statements to include the Foundation's net assets in prior years.

Starting in 2022–23, the Foundation is implementing a new investment program, CMO, that aims to create additional fiscal capacity for the following:

- Donations received in the form of 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.
- Capital investments and allocation by way of sinking funds set aside to repay the $275 million university supported bond issuance set to mature between 2039 and 2059.
- Group insurance plans, unfunded future employee benefit obligations, and pension liabilities.

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. As at April 30, 2022, DBRS Morningstar estimated Concordia's expendable resources to be $32.0 million, or 6.9% of university-supported debt. Expendable resources have remained weak in recent years as the University used up reserves to offset deficits.

Exhibit 2 Debt per FTE and Interest Coverage (times)



Sources: Concordia and DBRS Morningstar.

Employee Future Benefits

The funding status and outlook for the University's pension plan has improved considerably in recent years following provincial legislation changes to public-sector pension plans in Québec. The University conducts triennial actuarial valuations for funding purposes (i.e., determination of contribution rates, special payments, etc.).

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 (excluding amortization payments that will be offset by the reserve) and is responsible for 55% of the going-concern deficits in the subsequent period. As at the year ended December 31, 2021, the plan was in a surplus position and thus requires no special payments on a going-concern basis. Universities in Québec are not required to make special payments to address solvency deficits.

Concordia's most recent valuation as at December 31, 2019 (revised on January 26, 2021), indicated an unfunded liability of $100.3 million compared with $110.5 million as of December 31, 2018. This translated to an annual amortization payment of $10.5 million in 2020 (2019: $10.8 million) and an estimated annual payment of $9.5 million thereafter. Total required contributions payable in 2021 were estimated at more than $60 million. Funded status on a going-concern basis has improved in recent years with favourable investment results and was 91.2% as at December 31, 2019 (estimated to be 104.9% as at December 31, 2020). The University's next actuarial valuation is scheduled for December 31, 2022, to be completed and submitted by September 2023.

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, 2022, the University's liability for these plans totalled $103.2 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 postemployment benefits.

Outlook

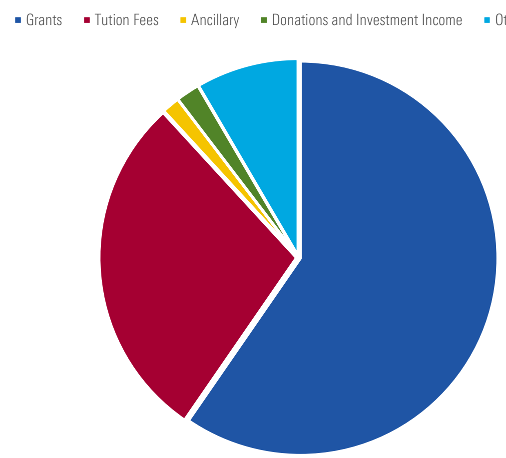
Concordia has indicated that it will access debt for strategic investments and to fund a portion of projected operating deficits over the medium term, with university-supported debt-to-FTE (as calculated by DBRS Morningstar) more than $18,000. The University has indicated to DBRS Morningstar that actual debt growth will likely be slower than projected as Concordia seeks to fund any major projects through provincial funding, donations, and alternative arrangements.

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 more than 90% of total revenue in 2021–22.

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 (2021–22)



Sources: Concordia and DBRS Morningstar.

Government Funding (Provincial and Federal; 60%)

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 2022–23 budget assumes a teaching grant of $202 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 2022–23, the University foresees a support grant of $65 million.
- **Maintenance (land and buildings):** Provided largely based on the floor space that is recognized for funding purposes. Concordia anticipates a $44 million maintenance grant in 2022–23.

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.

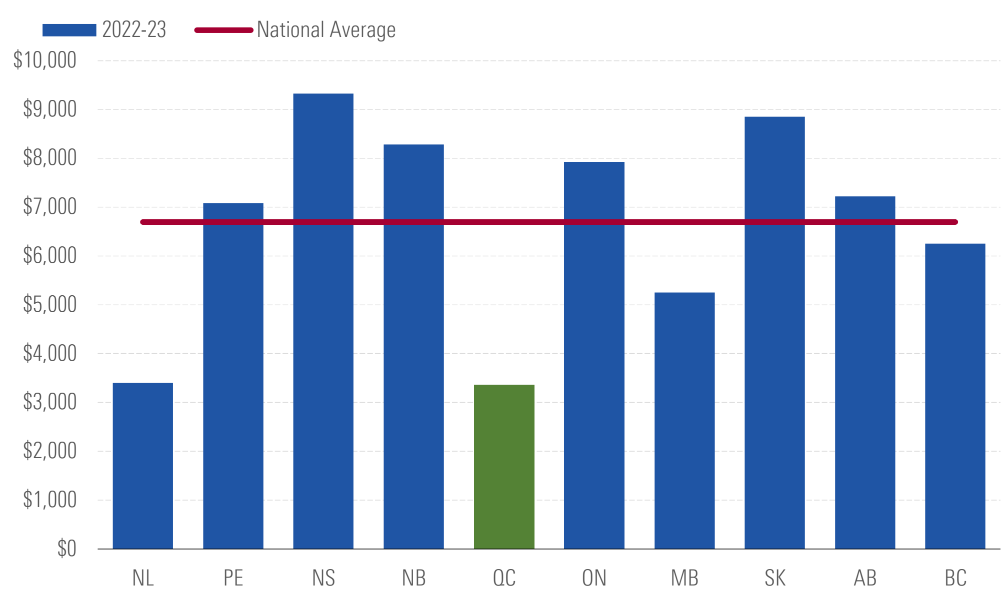
The federal government typically provides 65% to 75% of all public research funding. In recent years, the federal government announced additional funding supports through research scholarships, in addition to several other measures to improve the affordability of post-secondary education in Canada. Capital 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 (29%)

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).
- **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. For 2022–23, the provincial government announced that tuition fees will not increase by more than 3%.
- **International students:** The Province deregulated tuition fees for international students in programs other than research-based masters and doctoral programs, and for students coming from France and Belgium.

Exhibit 4 Average Provincial Undergraduate Tuition Fees ($)



Source: Statistics Canada.

Donations and Investment Income (2%)

Unrestricted donations and investment income recognized on the statement of operations represent a modest proportion of the University's revenue. Concordia launched a major fundraising campaign in November 2017 (The Campaign for Concordia: Next-Gen Now), seeking to raise $250 million. The University has raised more than 95% of the campaign target.

In 2021–22, the University received $11.5 million (versus $6.9 million in 2020–21) in unrestricted donations, and $2.0 million ($3.2 million in 2020–21) in endowment contributions. As at April 30, 2022, the endowment's market value was $139.1 million. Concordia has among the smallest endowments of DBRS Morningstar-rated universities.

ESG Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis:	Y/N**	Extent of the Effect on the ESG Factor on the Credit Analysis: None (N), Relevant (R) or Significant (S)*
Environmental	**Overall:**	**N**	**N**
Emissions, Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?		
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?		
Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?		
Land Impact and Biodiversity	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?		
Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
Social	**Overall:**	**N**	**N**
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N
	Human Capital and Human Rights:	**N**	**N**
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?		
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?		
Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?		
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?		
Governance	**Overall:**	**N**	**N**
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
Bribery, Corruption, and	**Bribery, Corruption, and Political Risks:**	**N**	**N**
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
	Corporate / Transaction Governance:	**N**	**N**
Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?		
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?		
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?		
	Institutional Strength, Governance, and Transparency:		
	Consolidated ESG Criteria Output:	**N**	**N**

Statement of Operations (Adjusted)

(CAD thousands)	For the year ended April 30				
	2022	**2021**	**2020**	**2019**	**2018**
Revenues					
Tuition fees	199,109	185,280	175,750	162,178	148,302
Grants	415,005	387,419	375,377	365,019	330,970
Services to the community, students, and other income	58,586	51,976	59,345	62,123	58,215
Ancillary services and rental properties	10,159	4,366	20,791	23,457	23,578
Investment income	2,052	27,750	1,780	8,652	6,749
Donations	11,467	6,898	8,327	9,296	7,881
Total revenues	**696,378**	**663,689**	**641,370**	**630,725**	**575,695**
Expenses					
Academic services and support	312,097	295,599	289,700	281,152	258,066
Research	75,585	75,509	71,682	73,803	63,370
Institutional services and support	129,996	105,427	104,413	99,670	89,713
Services to the community, students, and other expense	33,154	27,681	33,381	29,975	28,053
Endowed and restricted projects	26,014	25,480	17,552	15,322	14,105
Employee future benefits	44,927	51,962	50,271	48,988	44,542
Ancillary services and rental properties	9,359	7,484	17,375	16,165	15,785
Capital maintenance projects	19,648	18,032	11,284	10,506	2,815
Interest expense	22,723	27,196	29,202	26,660	24,241
Amortization of tangible capital assets	48,999	46,755	44,147	44,141	42,431
Amortization of intangible capital assets	5,216	3,610	3,651	4,133	3,569
Total expenses	**727,718**	**684,735**	**672,658**	**650,515**	**586,690**
Operating surplus (deficit), as reported	**(31,340)**	**(21,046)**	**(31,288)**	**(19,790)**	**(10,996)**
Nonrecurring revenue/(expenditures)[1]	-	-	-	-	-
Adjusted surplus (deficit)	**(31,340)**	**(21,046)**	**(31,288)**	**(19,790)**	**(10,996)**

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

Statement of Financial Position (Adjusted)

(CAD thousands)	As at April 30				
Assets	**2022**	**2021**	**2020**	**2019**	**2018**
Cash and cash equivalents	10,766	21,490	19,582	60,843	12,184
Grants and accounts receivable	129,400	134,600	145,726	160,706	76,576
Prepaid expenses and other assets	9,773	6,972	8,601	9,628	9,512
Amount receivable from MEES[1]	51,436	64,757	67,044	69,785	72,183
Investments	347,088	325,473	269,889	236,307	176,737
Tangible capital assets	943,803	916,559	877,944	852,656	806,581
Intangible capital assets	69,005	56,256	41,496	23,026	24,820
Other assets	715	715	503	465	3,520
Total assets	**1,561,986**	**1,526,822**	**1,430,785**	**1,413,416**	**1,182,112**
Liabilities and Net Assets					
Liabilities					
Payables and other current liabilities	143,264	138,192	114,093	113,123	89,991
Unearned revenue	43,285	33,054	22,482	27,320	16,405
Bank loans	187,646	137,662	132,513	133,400	101,200
Long-term debt	684,385	694,913	681,861	633,694	566,091
Deferred contributions	293,071	273,237	241,375	237,096	133,991
Employee future benefit liability	138,597	131,906	179,351	190,305	182,024
Total liabilities	**1,490,248**	**1,408,964**	**1,371,675**	**1,334,938**	**1,089,702**
Net Assets					
Unrestricted	(124,164)	(120,251)	(112,640)	(113,656)	(109,946)
Employee future benefits	(138,597)	(131,906)	(179,351)	(190,305)	(182,024)
Internally restricted	156,164	147,869	128,640	135,729	165,187
Invested in capital assets	39,267	77,154	105,890	125,228	136,993
Endowments	139,068	144,992	116,571	121,482	81,918
Consolidation adjustement[2]	-	-	-	-	282
Total net assets	71,738	117,858	59,110	78,478	92,411
Total liabilities and net assets	**1,561,986**	**1,526,822**	**1,430,785**	**1,413,416**	**1,182,112**

1 MEES = Québec Ministry of Education and Higher Education.

2 Effective F2019, the University changed its accounting policy to consolidate financial statements for its significant controlled entities, in particular the 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)

(CAD thousands)	For the year ended April 30				
	2022	**2021**	**2020**	**2019**	**2018**
Operating balance before fund transfers	(31,340)	(21,046)	(31,288)	(19,790)	(10,996)
Amortization	54,215	50,365	47,798	48,274	46,000
Other noncash adjustments	14,745	17,025	11,182	26,859	(23,004)
Cash flow from operations	**22,875**	**29,319**	**16,510**	**28,484**	**35,004**
Change in working capital	28,698	31,376	(25,313)	9,506	(14,898)
Operating cash flow after working capital	**51,573**	**60,695**	**(8,803)**	**37,990**	**20,106**
Capital expenditures	(94,208)	(103,739)	(91,556)	(92,555)	(54,014)
Free cash flow	**(42,635)**	**(43,044)**	**(100,359)**	**(54,565)**	**(33,908)**

Summary Statistics (Adjusted)

	For the year ended April 30				
	2022	**2021**	**2020**	**2019**	**2018**
Total enrolment (raw FTEs)[1]	**30,337**	**31,164**	**29,822**	**30,034**	**29,666**
Undergraduate (%)	83	86	84	84	85
Graduate (%)	17	14	16	16	15
Annual change (%)	-2.7	4.5	-0.7	1.2	3.6
Enrolment (headcount)					
Domestic (%)	78.2	78.7	78.2	79.4	81.6
International (%)	21.8	21.3	21.8	20.6	18.4
Total staff (FTEs)[2]	**n.a.**	**3,961**	**3,791**	**3,606**	**3,658**
Academic staff (%)	n.a.	41	41	42	45
Operating Results					
Surplus (deficit; CAD thousands)	(31,340)	(21,046)	(31,288)	(19,790)	(10,996)
- As % of revenue	-4.5	-3.2	-4.9	-3.1	-1.9
- As % of revenue (five-year rolling average)	-3.5	-3.2	-3.7	-4.0	-2.3
Revenue Mix					
Government funding (%)	60	58	59	58	57
Tuition (%)	29	28	27	26	26
Ancillary (%)	1	1	3	4	4
Donations and investment income (%)	2	5	2	3	3
Other (%)	8	8	9	10	10
Debt and Liquidity					
Total debt (CAD millions)	872	833	814	767	667
Debt serviced by Province (CAD millions)	410	400	402	376	375
Debt serviced by University (CAD millions)	462	432	413	391	292
- Per FTE student (CAD)	15,230	13,875	13,837	13,009	9,857
Estimated university-supported interest charges (CAD millions)	17.2	16.6	17.6	17.5	15.0
Interest charges supported by University/total exp. (%)	2	2	3	3	3
Interest coverage ratio (x)[3]	2.3	2.8	1.9	2.6	3.3
Expendable resources (CAD millions)	32.0	27.6	16.0	22.1	55.2
As a share of long-term debt serviced by the University (%)	6.9	6.4	3.9	5.6	18.9
Endowments					
Total market value (CAD millions)	139	145	117	121	98
Per FTE student (CAD)	4,584	4,653	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	2021	2020	2019	2018	2017
Concordia University	Issuer Rating	A	A	A	A	A	A
Concordia University	Series Unsecured Debt	A	A	A	A	A	A

Related Research

- *Rating Public Universities*, May 5, 2022.

Previous Report

- Concordia University: Rating Report, December 17, 2021.

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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