# Queen's University

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*This report does not constitute a rating action.*

## Credit Highlights

### Overview

| Enterprise profile | Financial profile |
|---|---|
| Queen's University benefits from exceptional student demand characteristics and market position. | We expect that, spurred by persistent enrollment progress and a recovery in ancillary revenue, the university will continue generating positive operating margins. |
| Queen's is a research-intensive university, which helps attract international students. | We expect the university's significant financial resources and future capital plans will keep its debt burden moderate. |
| The excellent economic and demographic fundamentals of the Province of Ontario help to sustain domestic demand. | We believe that Queen's robust liquidity will help sustain the university's credit profile. |

S&P Global Ratings' long-term issuer credit rating on Queen's University is 'AA+'. The rating reflects Queen's 'aa+' stand-alone credit profile (SACP), which is based on our combined assessment of the university's extremely strong enterprise and very strong financial profiles. The rating also reflects our opinion of a moderately high likelihood that the Ontario government would provide extraordinary support in the event of financial distress. We expect Queen's will continue generating solid financial results, with healthy student demand, in particular undergraduate students, helping to offset the continuing recovery in ancillary operations and flat government funding and domestic tuition revenue. We believe that the threat of a prolonged pandemic and associated restrictions to on-campus activities have largely abated.

## Outlook

The stable outlook reflects our view that, over our two-year outlook horizon, Queen's will maintain an exceptional market position and student demand profile, positive adjusted net margins, and abundant financial resources that will support a moderate debt burden.

The outlook also reflects our expectation that the university's relationship with the Province of Ontario will be stable and that our assessment of the likelihood of extraordinary support will not change.

### Downside scenario

We could lower the ratings if significantly lower enrollment or unmanaged inflationary pressures resulted in lower-than-expected operating margins in the next two years, potentially requiring Queen's to rely on its substantial liquidity position to help fund operations and debt service. Should this cause the university's cash and investments to fall below 3x its debt outstanding on a sustained basis, we could lower the ratings. All else being equal, a negative rating action on Ontario would also result in a negative rating action on Queen's, given our three-notch cap above the rating on the supporting government. Moreover, a negative government intervention from the province or a significant reduction in the university's resilience to an Ontario default scenario could cause us to lower the ratings on the university.

### Upside scenario

All else being equal, a positive rating action during our two-year outlook horizon is unlikely, given our three-notch cap above the rating on the supporting government. However, even if we were to raise the rating on Ontario, we might not necessarily raise the rating on Queen's in tandem. This is due to the university's significant operating pressures and reliance on provincial grants, which can be unilaterally altered and have a higher risk of cuts in times of provincial budget stress.

## Rationale

The enterprise profile assessment reflects our view of the higher education sector's low industry risk; Queen's solid market position and demand profile and strong management and governance practices; and Ontario's extremely strong economic fundamentals. In the past three years, an average of 64% of the student body originated from Ontario; therefore, we measure the economic fundamentals based on the province's GDP per capita (estimated at about US$55,800 in 2022), good income indicators, and moderate employment and population growth projections.

Queen's was established in Kingston, Ont., by Royal Charter in 1841. It is a midsize, research-intensive university offering a variety of undergraduate and graduate degrees across eight faculties and schools (arts and science, education, engineering and applied science, health sciences, law, Bader College, commerce, and graduate studies). The university conducts innovative research in many fields, including applied artificial intelligence and analytics, chemistry, particle astrophysics, cancer trials, clean technology, geotechnical engineering, Indigenous studies, neuroscience, prisons, justice and surveillance, and art conservation.

The university is a member of the U15, an association of leading public Canadian research universities. Members undertake 80% of all competitive university research in the country, and rank among the world's premier institutions. Queen's external research funding was C$172 million in fiscal 2022 (C$182 million in 2021).

In our opinion, the university's student quality metrics remain strong and compare well with those of rated Canadian peers. Queen's estimates its annual enrollment for fall 2022 at 29,665 full-time equivalent (FTE) students, an increase of 1.2% from 2021 although less than the previous year's increase of 7.0%. Nevertheless, FTEs are on an upward trend, supported by 2.6% growth in undergraduate enrollment, although international students' enrollment difficulties persist, as they do globally, while graduate FTEs decreased 2.5%. We expect enrollment growth will remain modest in the near term. Queen's will continue to focus its efforts on attracting more international students; on average in the past three years, approximately 13.3% of FTEs were from outside Canada.

Student quality remains strong, as reflected in the university's high retention and graduation rates of about 93.2% and 85.4%, respectively, in the past year.

Queen's benefits from exceptional faculty quality, with substantially all faculty members possessing terminal degrees (PhDs or equivalents), a consistent trend in at least the past five years. Moreover, its retention rate in fall 2022 remained very strong, at 93.2%; this is one of the highest among Canadian peers. First-year selectivity (offers to applications) and six-year graduation rates remained higher than those of most peers, at 39.5% and 85.4%, respectively.

The university's senior administration has sufficient depth and expertise, in our opinion, and has demonstrated consistent operational effectiveness, as evidenced by a track record of strong operating margins that we believe lends stability to the credit profile. The university follows a strategic plan that guides its long-term strategies based on its mission. Overall, we consider Queen's transparency and disclosure good, with policies, procedures, and risk management capabilities to adequately identify, monitor, and mitigate risks. The university conducts its activities according to a three-year operating budget that is aligned with its strategic plan. Queen's prepares externally audited financial statements, which are unqualified, and has formal policies in place, including investment and debt policies.

In our view, Queen's has a very strong financial profile, supported by a robust operating margin of 6.1% on a three-year weighted-average basis of adjusted operating expenditures, which is higher than the 5.1% average recorded last year. Fiscal 2022 ended with a high net operating margin of 8.1% (S&P Global Ratings-adjusted), reflecting the significant increase in tuition, fees, and sales and services (ancillary operations revenues) due to more on-campus activities. Similar to that of Canadian peers, the university's limited flexibility to increase its student-generated revenue somewhat offsets its strong financial performance. This is primarily because Ontario monitors and guides domestic tuition rates, student aid (through the tuition framework), and enrollment expansion (through operating grants, which are not expected to increase in real terms).

As of Dec. 31, 2022, Queen's reported a deficit of approximately C$28.2 million in its financial projections for fiscal 2023, lower than the $43.5 million budgeted, due to deferral of renovations, planned contingencies, and delayed hiring. Queen's is funding its deficit through the depletion of reserves and expects to balance its operating budget by drawing down on carryforward balances. Although economic pressures could potentially weaken its consolidated financial performance in the near term, we believe Queen's will gradually reverse the trend.

The university has demonstrated effective fundraising capacity, raising about C$120 million in 2023, well above its target of C$62.5 million. Queen's has a substantial endowment compared with that of other Canadian universities, with a fair value of C$1.4 billion at fiscal year-end 2022, the same as in 2021.

In our view, Queen's has a moderate debt burden. At fiscal year-end 2022, its total gross debt outstanding was C$381.1 million. The debt consists of four fixed-rate bullet bonds due at the earliest in fiscal 2033, and an amortizing bank loan maturing in fiscal 2031. The university issued its most recent bullet debentures in April 2020; the debt funding has been reallocated from original capital projects due to some modification to the university's priorities that includes the cancelation of one of its projects. The debt structure is aggressive because more than 50% of total debt is nonamortizing; however, the university has established sinking funds to help repay the bullet bonds (C$111.6 million at the end of fiscal 2022), which we include in our measure of internally restricted net assets. Queen's maximum annual debt service (which includes an estimated principal component for nonamortizing debt) remained modest, at about 3.9% of 2022 adjusted operating expenditures.

A new, jointly sponsored multiemployer University Pension Plan Ontario (UPP) developed by Queen's, the University of Toronto, and the University of Guelph came into effect on July 1, 2021, covering employees and retirees in the pre-existing plans at all three universities. Since its inception, the plan has been open to other Ontario universities, and Trent University joined in January 2022. The assets and liabilities of the universities' previous plans (C$2.6 billion of assets on July 1, 2021) were transferred to the UPP, with a combined past surplus of C$132 million to the UPP and contributions and accrual of benefits under the UPP began on the effective date. Queen's entered the UPP with a strong financial position and we believe that, in the long term, the risk-shared nature of the plan limits the potential future impact of any plan deficits on its overall credit profile.

Based on Queen's public disclosures, we do not believe the university has any additional contingent liabilities that could materially affect our view of its credit profile.

As of 2022, Queen's had C$2.4 billion in cash and investments, essentially unchanged from 2021, which is more than twice its available resources, indicating very robust liquidity, which bolsters our assessment of the financial resources potentially available to it under a stress scenario. Our measure of available resources (internally restricted net assets plus internally restricted endowments) slightly decreased to C$861.1 million at year-end fiscal 2022 from C$866.9 million the year before. This was sufficient to cover 85% of adjusted operating expenses on a three-year weighted-average basis, a level we consider high. We expect the university's liquidity will remain more than sufficient to fund all debt service requirements and provide a significant buffer against medium-term stress.

### Moderately high likelihood of extraordinary provincial government support

In accordance with our criteria for government-related entities (GREs), our view of Queen's moderately high likelihood of extraordinary government support reflects our assessment of its important role in the province, given that postsecondary education is one of Ontario's priorities in both expenditure and mandate (after health care and school boards), and that there are no viable private alternatives. It also reflects our view of Queen's role as one of Canada's most reputable higher education institutions, and its significant research capacity. The province's oversight, program approval rights, and tuition regulation over the university suggest a strong link to it. Also supporting our assessment of the link are the large operating grants received from the province, accounting for about 20% of Queen's total revenue.

We rate Queen's three notches above Ontario, the maximum differential allowed in accordance with our methodology for rating GREs that we believe depend on ongoing government support. The difference reflects our view of the university's substantial financial assets. We believe there is a measurable likelihood that Queen's financial resources would meet ongoing operational and debt service requirements should the government default and temporarily suspend payments to the university. In addition, the difference reflects Queen's ownership structure, in which the government is neither an owner nor shareholder. Moreover, the province appoints none of the university's board of trustees' members. We consider the risk of extraordinary negative government intervention low, given the university's operational independence, important public policy role, and the government's hands-off approach to the sector.

In January 2019, the government of Ontario imposed a 10% reduction to domestic tuition for the 2019-2020 academic year and a freeze through 2023-2024. Furthermore, the province did not provide additional grant revenue to offset the tuition cut and is at present targeting the implementation of performance-based funding in fiscal 2024. Neither the federal nor provincial government has announced any material financial support to the postsecondary sector. Although we are not expecting any material increase in ongoing operating or capital funding from the province in the medium term, we continue to believe that there is a moderately high likelihood that the province would provide support to Queen’s in a distress scenario.

## Environmental, Social, And Governance

We view the health and safety social risks posed by the pandemic as abating for the higher education sector; however, given the pandemic's significant effects on modes of instruction and enrollment trends over the past two years, we believe a future public health event of similar size and scope could again affect demand and finances. We evaluated Queen's environmental and governance factors and found them to be neutral in our credit analysis as a whole.

## Key Statistics

### Queen’s University -- Selected Indicators

| | --Fiscal year-end April 30-- | | | | | Medians for 'AA' public colleges & universities* |
|---|---|---|---|---|---|---|
| **(Mil. C$)** | **2023 demand** | **2022** | **2021** | **2020** | **2019** | **2021** |
| **Enterprise profile** | | | | | | |
| Full-time equivalent enrollment (no.) | 29,665 | 29,207 | 27,295 | 26,638 | 25,972 | 37,225 |
| Selectivity rate (%) | 39.5 | 41.5 | 47.5 | 38.2 | 39.4 | 70.6 |
| Undergraduates as a % of total enrollment | 76.0 | 75.4 | 77.1 | 76.7 | 77.2 | 80.6 |
| Retention rate (%) | 93.2 | 94.0 | 95.4 | 94.7 | 94.5 | 86.4 |
| Graduation rates (six years) (%) | 85.4 | 85.5 | 85.7 | 86.9 | 86.4 | 70.0 |
| **Financial profile** | | | | | | |
| Adjusted operating revenue | N.A. | 1,087.4 | 1,012.8 | 1,020.6 | 1,052.5 | MNR |

| | | | | | | |
|---|---|---|---|---|---|---|
| Adjusted operating expense | N.A. | 1,005.6 | 958.4 | 995.7 | 970.5 | MNR |
| Net adjusted operating margin (%)† | N.A. | 8.1 | 5.7 | 2.5 | 8.5 | 3.5 |
| Student dependence (%) | N.A. | 39.9 | 39.8 | 38.9 | 37.2 | 36.3 |
| Government operating grant dependence (%) | N.A. | 19.3 | 20.5 | 20.5 | 19.7 | 16.5 |
| Investment income dependence (%) | N.A. | 1.2 | 16.0 | 5.0 | 7.1 | 1.2 |
| Outstanding debt | N.A. | 381.1 | 385.4 | 389.4 | 268.4 | 862.0 |
| Maximum annual debt service/total operating expense (%) | N.A. | 3.9 | 4.1 | 3.9 | 3.0 | 3.4 |
| Available resources to adjusted operating expenses (%) | N.A. | 85.6 | 90.4 | 73.7 | 73.4 | 43.3 |
| Available resources to total debt (%) | N.A. | 225.9 | 224.9 | 188.5 | 265.3 | 132.0 |

*Median figures are in U.S. dollars. †As % of adjusted operating expense. N.A.--Not available. MNR--Median not reported.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Outlook For Global Not-For-Profit Higher Education: Credit Quality Continues To Diverge, Jan. 18, 2023
- Australia, Canada, Mexico, And U.K. Universities Medians: Fiscal 2021 Credit Trends Turned Positive Despite Challenges, , Oct. 20, 2022
- U.S. Not-For-Profit Public College And University Fiscal 2021 Median Ratios: Federal and State Funds Relieve Pandemic Pressure, Elevate Margins, July 12, 2022

### Ratings Detail (as of April 12, 2023)*

| | |
|---|---|
| **Queen's University** | |
| Issuer Credit Rating | AA+/Stable/-- |
| Senior Unsecured | AA+ |
| **Issuer Credit Ratings History** | |
| 14-Dec-2012 | AA+/Stable/-- |
| 05-Aug-2010 | AA+/Negative/-- |
| 01-Nov-2002 | AA+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.