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Ratings

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Queen's University

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Key Rating Factors

Issuer Credit Rating
AA+/Stable/--

Enterprise Profile	Financial Profile
• Queen's University benefits from exceptional student demand characteristics and market position. • The university's enrollment remained strong in fall 2020 despite the COVID-19 pandemic-related restrictions. • Its core catchment area within the Province of Ontario has excellent economic fundamentals and supportive demographics.	• Queen's operating margins remain positive, largely fueled by enrollment growth, helping to internally finance its capital plans and maintain a moderate debt burden. • A more prolonged COVID-19 pandemic and associated restrictions on campus activities could pressure Queen's financial performance in the near term, especially if enrollment falls materially in the next fiscal year. • Despite material near-term challenges, we believe that Queen's robust liquidity will help sustain the university's credit profile.

Outlook

The stable outlook reflects our view that the COVID-19 pandemic will have a temporary impact on the university, but that, on average, over our two-year outlook horizon, Queen's will maintain an exceptional market position and student demand profile, close-to-balanced adjusted net margins, and abundant financial resources, and will not increase its debt burden. The outlook also reflects our expectation that Queen'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

Prolonged social distancing measures caused, for instance, by flare-ups in COVID-19 could lead to a longer-term disruption to the university's operations. This could temporarily impair enrollment levels and revenues, putting pressure on operating margins, and potentially requiring Queen's to rely on its substantial liquidity position to help fund operations and debt service until the negative effects of the pandemic subside. Should this cause the university's cash and investments to fall below 3x its outstanding debt 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.

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 the Province of 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 ratings on Queen's reflect the university's stand-alone credit profile (SACP), which S&P Global Ratings assesses at 'aa+' based on Queen's extremely strong enterprise and very strong financial profiles. We believe that the university's robust cash and investments, which cover over 3x its total debt, strengthen the SACP; however, we believe that the limited financial flexibility resulting from provincially capped tuition rates and higher dependence on government funding and student revenues compared with that of U.S. 'AAA' rated peers offset this strength (of note, there are no 'AAA' rated universities in Canada). The ratings also reflect our opinion of a moderately high likelihood that the Ontario government would provide extraordinary support to the university in the event of financial distress. Queen's strong financial resilience and legal and operating independence allow the ratings on the university to exceed those on Ontario under our government-related entities (GRE) criteria.

We believe the COVID-19 pandemic represents a short-term risk to Queen's and other universities we rate. It had a modest impact on the university's overall financial results in fiscal 2020 (ended April 30), with most of the decrease in the year's operating margin being attributed to lower revenues from donations and lower investment income compared with the exceptional levels recorded in previous years. The university's fall 2020 total enrollment remained strong due to a higher number of acceptances and despite ongoing restrictions to travel, on-campus learning, and other activities that somewhat limited international enrollment. Although the pandemic will continue to dampen the university's financial performance in the near term, primarily due to pronounced weakness in the ancillary operations, we believe Queen's can gradually reverse the trend once the pandemic-related restrictions ease. However, we believe that the threat of more prolonged pandemic-related travel restrictions, and limited on-campus activities and student mobility, poses a material risk to longer-term student demand and enrollment growth, particularly international students, which could affect the university's enterprise and financial profiles.

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 six faculties (arts and science, education, engineering, health sciences, law, and business) and two schools (graduate studies and policy studies). Queen's undertakes cutting-edge research in many fields, including applied artificial intelligence and analytics, particle astrophysics, cancer clinical trials, clean technology, geotechnical engineering, surveillance studies, 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$177 million in fiscal 2020, virtually unchanged from the previous year; it increased about 30% in the past five years.

The enterprise profile assessment reflects our view of the higher education sector's low industry risk, Queen's solid market position and demand profile, the university's 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$45,700 in 2020), good income indicators, and moderate employment and population growth projections.

In our opinion, student quality metrics continue to demonstrate strength and compare well with those of rated Canadian peers. The university's full-time equivalent students (FTEs) increased by 2.5% in fall 2020, continuing a steady upward trend and supported primarily by 2.9% growth in undergraduate enrollments, while graduate FTEs were 0.7% higher. As do many other universities worldwide, Queen's will continue to focus its enrolment growth efforts on attracting more international students; in autumn 2020, approximately 13% of FTEs were from outside of Canada, a slight decrease from the targeted 15% achieved in 2019. We expect enrollment growth will remain modest in the near term.

Queen's benefits from exceptional faculty quality, with substantially all faculty members possessing terminal degrees (PhDs or equivalents), a trend consistent over at least the past five years. Moreover, Queen's retention rate and average entry grades in fall 2020 remained very strong, at 95.4% and 89.4%, respectively; the retention rate 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 47.5% and 85.7%, respectively. Queen's tuition discounting, which we define as total financial aid costs as a percentage of gross tuition and fees, has decreased steadily in the past four years. This suggests the university has some flexibility to address affordability concerns, which bolsters the university's competitive position. In our opinion, the university has demonstrated effective fundraising capacity, raising an average of C$60 million annually over the past three years.

Queen's management team's expertise, governance practices, and financial management policies, in our view, are strong. Management has demonstrated consistently positive operational effectiveness, which we believe lends stability to the credit profile. The university follows a five-year strategic plan that guides its long-term strategies based on its mission. Management reviews plan performance annually, tracks progress against specific activity indicators, and monitors identified risks. Moreover, it has a robust universitywide enterprise risk framework that guides its identification and management of risks. Overall, we view transparency and disclosure to be good, with policies and procedures in place to adequately mitigate risks. The university conducts its activities according to a three-year operating budget that is aligned with its strategic plan, which it expects to update in 2021 and contains what we view as reasonable assumptions. Queen's prepares externally audited financial statements, which are unqualified, and it has formal policies in place, including investment and debt policies.

In our view, Queenś has a very strong financial profile, with a history of adequate financial performance, excellent levels of available resources, and a moderate debt burden. We expect the university to maintain, on average, positive adjusted net margins supported by strong enrollment and effective management of the operating pressures it faces--primarily the tuition framework, flattening government grants, decreased ancillary revenues, and rising expenditures. At the end of the second quarter of fiscal 2021, Queen's projected an operating deficit of approximately C$16.5 million, below the originally budgeted C$24 million. This was primarily due to savings from postponed hiring and renovation projects at the faculties' level, which partly offset shortfalls in key revenue streams such as student tuition, investment income, and other revenues. The university expects to balance its operating budget through fiscal 2023 after drawing down on carryforward balances. At the same time, due to reduced residence, events, and other ancillary operations, it estimates its ancillary deficit will be C$17 million compared with a budgeted deficit of C$0.8 million. Although the pandemic will continue to weigh on the university's ancillary operations, potentially weakening its consolidated financial performance in the near term, we believe Queen's can gradually reverse the trend once the pandemic-related restrictions ease. On average from 2018-2020, Queen's generated an adjusted net operating margin (on a fully consolidated basis) of 5.8% of adjusted operating expenditures, which is slightly below the 7.4% average recorded last year. The decrease is primarily attributed to the 2020 operating margin, which was more in line with historical levels and below the exceptional levels recorded in 2018 and 2019 when the university's financial results benefited from high investment returns and donations and higher-than-anticipated student enrollment.

Similar to that of Canadian peers, the university's limited flexibility to increase its student-generated revenues somewhat offsets its financial performance strength. This is primarily because Ontario monitors and guides domestic tuition rates and student aid (through the tuition framework), and domestic enrolment expansion (through operating grants). However, universities decide these matters and their long-term strategies.

In our view, Queen's has a moderate debt burden. At fiscal year-end 2020, its total gross debt outstanding was C$389 million. The debt consists of four fixed-rate bullet bonds due at the earliest in 2033, and an amortizing bank loan maturing in 2030. The university issued its most recent bullet debentures in April 2020; proceeds will be used to build a 334-bed student residence, and to renovate the 355 King Street West site for administrative purposes. As of April 30, 2020, the university held approximately C$123 million in sinking funds to repay its bullet debentures outstanding, which we include in our measure of internally restricted net assets. Queen's maximum annual debt service remained modest, at about 3.9% of 2020 adjusted operating expenditures, which is lower than the median for peers in the 'AA' rating category.

We believe that available resources could decline somewhat in the next two years if Queen's uses reserves to meet any financial shortfalls from the COVID-19 pandemic or capital projects over the next two years. However, we believe these ratios will remain fairly strong, on average, in line with historical levels.

We believe that postemployment liabilities somewhat offset Queen's financial profile strengths, despite the steps both the province and university have taken to address the solvency deficit. Queen's maintains a defined-contribution pension plan with a defined-benefit component that provides a minimum level of benefits, which is in a deficit and requires ongoing deficit payments, putting some pressure on cash flows. As of the most recent actuarial valuation (Aug. 31, 2020), Queen's going-concern pension deficit was C$255 million on a market basis and C$265 million on a smoothed basis, while the solvency deficit was about C$440 million. Although the asset base remains strong, the higher deficits are the result of volatile economic conditions and lower interest rates, which affected the liabilities.

Starting July 1, 2021, Queen's, together with the University of Toronto and the University of Guelph, will transfer its assets into the newly created university pension plan (UPP) for Ontario universities. The new UPP is designed to enhance the long-term sustainability of defined-benefit pension plans in the university sector. This means that, while participating universities will continue to make special contributions to eliminate their own past service going-concern deficits, they will not be subject to solvency payment regimes. Queen's expects it will not need to keep making going-concern payments, given its estimate that it will have a going-concern surplus at a new actuarial valuation in 2021 based on UPP's assumptions. This could help improve cash flows and provide long-term pension sustainability.

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.

Liquidity

In our view, the university has very robust liquidity. At fiscal year-end 2020, Queen's total cash and investments increased to C$2 billion from C$1.8 billion in 2019, which is 5.3x the university's debt outstanding. Unrestricted financial resources totaled a little more than C$734 million, up from C$712 million in 2019 and C$625 million in 2018. This covers approximately 74% of adjusted operating expenses and 188% of debt. These ratios compare well with those of peers. We expect that Queen's debt metrics will remain adequate in the next two years. We believe that Queen's balance sheet and liquid resources will help the institution to offset medium-term pressures that might arise.

In fiscal 2020, the market value of the university's endowment was C$1.1 billion, virtually unchanged from 2019. This is one of the largest endowments among Canadian universities, and the second-largest in Ontario after the University of Toronto's; since 2009, Queen's endowment's market value has more than doubled. The university has a conservative endowment draw, with a long-term payout target rate of 4% of the endowment's market value. In fiscal 2020, the endowment paid out C$44.5 million, a payout 5.7% higher than the previous year's spending.

Moderately high likelihood of extraordinary provincial government support

In accordance with our criteria for 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.

Ontario elected a new provincial government in June 2018. In January 2019, the government announced changes to university funding, which included a plan to cut domestic tuition fees by 10% for the 2019-2020 fiscal year, a freeze in tuition rates for the following fiscal year, and changes to its student assistance program and some student fees. Furthermore, the province has stated that there will be no additional grant revenue to offset the tuition cut. The university must comply or risk losing some of its core operating grants from the province. We believe that Queen's will avoid consolidated deficits, and will mitigate the loss in tuition revenue through increases in international enrolment and appropriate budgetary adjustments. While the requirement to cut tuition fees was unexpected, it does not change our assessment of the government's likelihood of support based on Queen's strong link and important role with the province.

Queen's University -- Enterprise and Financial Statistics

	--Fiscal year ended April 30--					Medians for 'AA' U.S. public colleges & universities†
	2021 demand	**2020**	**2019**	**2018**	**2017**	**2019**
Enrollment and demand						
Headcount	29,509	28,358	27,516	26,513	25,395	MNR
Full-time equivalent	27,295	26,638	25,972	25,044	23,994	36,667
First year acceptance rate (%)	47.5	38.2	39.4	44.2	44.3	69.6
First year matriculation rate (%)	34.6	34.0	33.5	35.5	37.0	MNR
Undergraduates as a % of total enrollment (%)	77.1	76.7	77.2	77.2	77.6	78.8
First year retention (%)	95.4	94.7	94.5	94.7	94.7	85.7
Graduation rates (six years) (%)*	85.7	86.9	86.4	85.5	85.5	MNR

Queen's University -- Enterprise and Financial Statistics (cont.)						
	--Fiscal year ended April 30--					Medians for 'AA' U.S. public colleges & universities†
	2021 demand	2020	2019	2018	2017	2019
Income statement						
Adjusted operating revenue (C$000s)	N.A.	1,020,592	1,052,480	965,394	884,171	MNR
Adjusted operating expense (C$000s)	N.A.	995,689	970,467	887,398	861,445	MNR
Net adjusted operating income (C$000s)	N.A.	24,903	82,013	77,996	22,726	MNR
Net adjusted operating margin (%)	N.A.	2.5	8.5	8.8	2.6	1.50
Provincial grants to revenue (%)§	N.A.	20.5	19.7	21.4	22.7	18.3
Student dependence (%)	N.A.	38.9	37.2	36.7	36.0	41.2
Investment income dependence (%)	N.A.	5.0	7.1	4.9	9.0	1.4
Debt						
Debt outstanding (C$000s)	N.A.	389,437	268,397	272,239	275,966	808,057
Current debt service burden (%)	N.A.	1.80	1.84	2.00	2.07	MNR
Current MADS burden (%)	N.A.	3.91	3.00	2.82	2.88	3.60
Financial resource ratios						
Endowment market value (C$000s)	N.A.	1,141,352	1,152,622	1,085,486	1,046,531	1,006,154
Cash and investments (C$000s)	N.A.	2,049,219	1,843,276	1,684,575	1,611,055	MNR
Adjusted UFR (C$000s)	N.A.	734,103	712,463	625,338	582,457	MNR
Cash and investments to operations (%)	N.A.	205.8	189.9	189.8	187.0	56.4
Cash and investments to debt (%)	N.A.	526.2	686.8	618.8	583.8	169.9
Adjusted UFR to operations (%)	N.A.	73.7	73.4	70.5	67.6	36.7
Adjusted UFR to debt (%)	N.A.	188.5	265.5	229.7	211.1	92.9
Average age of plant (years)	N.A.	16.9	16.4	17.1	16.4	13.2
OPEB liability to total liabilities (%)	N.A.	7.3	8.3	9.0	8.6	MNR

*Median figure is five-year graduation rate. §Median figure is state appropriations to revenue. †U.S. median figures are in U.S. dollars. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. UFR--Unrestricted financial resources. Average age of plant = accumulated depreciation/depreciation and amortization expenses.

Related Criteria

- Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Outlook For Global Not-For-Profit Higher Education: Empty Chairs At Empty Tables, Jan. 20, 2021
- Australia, Canada, Mexico, And U.K. University Medians Report: Pandemic-Related Pressures Could Upset Recent Credit Metric Stability, Oct. 20, 2020

Ratings Detail (As Of April 13, 2021)*	
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.