STANDARD & POOR'S

Standard & Poor's Research

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Summary:
University of Western Ontario

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Summary:

University of Western Ontario

Credit Rating: AA/Negative/--

Rationale

The ratings on the University of Western Ontario (UWO or Western) reflect Standard & Poor's Ratings Services' view of the following factors:

- Strong student demand. Excluding its affiliates, UWO had about 29,000 full-time equivalent (FTE) students in fiscal 2010. The average entry grade of full-time first-year students was 87%, slightly below that of Queen's University (AA+/Negative/--). Western's selectivity is improving; its acceptance rate fell to 58% for fall 2010 students from 66% in fall 2005. Graduate students made up about 18% of fiscal 2010 enrolment. UWO is making excellent traction in increasing graduate enrolment; it now has a proportion of graduate students more similar to that of other rated Canadian research-intense universities. Graduate growth has also helped support the university's strong research profile, which ranks among the top 10 in Canada. Robarts Research Institute and Lawson Health and Research Institute are leading Canadian medical research centers and form an integral part of Western's research activities;
- A sound management team that has implemented several difficult initiatives to contain expenditures and nonpension postemployment liabilities (such as dental and prescription drugs). Furthermore, management has stipulated that the university will maintain a minimum ongoing operating reserve. It is also addressing Western's capital maintenance backlog by raising its annual transfer from operations toward the backlog each year. We expect management to lift the two-year freeze on these increases next year; and
- Stable government support. Stable operating grants from the Province of Ontario (AA-/Stable/A-1+) account for 46% of UWO's revenues, which helps underpin the ratings. In addition to a base operating grant (which it provides per FTE), the province also has a history of providing additional grant envelopes, or one-time year-end disbursements to alleviate operating and capital pressures. Given Ontario's large deficit, however, its medium-term financial support for universities could be constrained. Nevertheless, the province can also enact a more flexible tuition-setting policy to replace the one expiring in 2012.

We believe credit concerns include:

- A weakened balance sheet. In fiscal 2010, Western held unrestricted financial resources of C$131 million. While this is an improvement from 2008 and 2009 totals, the rebound has not met our expectations of returning to pre-2008 levels. Unrestricted financial resources now cover 60% of total debt, compared with 124% in 2007. Nevertheless, this highlights an important difference between UWO and its peers when considering nonfunded postemployment liabilities: For the university, the ratio is improving, while the reverse is true for most other institutions. This highlights the benefit of Western's defined contribution pension plan. In addition, debt metrics could tighten further during the next five years as Western considers further borrowing as a financing option; and
- The tight operating environment that, like all rated Canadian universities, UWO has been subject to in recent years. Nevertheless, we believe the university has exhibited strong resilience, posting a surplus 4.8% of operating revenue in fiscal 2010 after implementing cost-containment initiatives. Western's surpluses (and deficits) have

been partially affected by and generally move in tandem with investment income, which rebounded substantially in 2010. The other key attribute of the university's budget that has made it more resilient than that of its peers is its essentially balanced pension plan, for which it does not have the same special payment funding concerns that nearly all other rated Canadian universities must budget. Given that salaries and benefits are by far the most significant spending pressure at Canadian universities, UWO has a notably better performance outlook.

Outlook

The negative outlook reflects our expectation that Western's weakened balance sheet might not rebound to its previous levels in the near term despite improving operating performance. We could lower the ratings if, in the next two years, unrestricted financial resources do not improve to at least fiscal 2007 levels, debt substantially rises, operations return to deficit, or if government financial support diminishes. We could revise the outlook to stable if unrestricted financial resources rise to near-previous totals, the debt burden remains close to current levels, and operating performance maintains its positive trend, all else being equal.

Related Criteria And Research

General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009