STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

University of British Columbia

Primary Credit Analyst:
Adam J Gillespie, Toronto 416-507-2565; adam.gillespie@standardandpoors.com

Secondary Contact:
Jennifer Love, CFA, Toronto (1) 416-507-3285; jennifer.love@standardandpoors.com

Table Of Contents

University of British Columbia

Rationale

Issuer Credit Rating
AA+/Stable/--

The ratings on the University of British Columbia (UBC) reflect its stand-alone credit profile (SACP), which Standard & Poor's Ratings Services assesses at 'aa+'. The ratings also reflect our opinion of a "high" likelihood that the provincial government would provide extraordinary support in the event of financial distress. The SACP on UBC reflects Standard & Poor's view of the university's good budgetary performance, strong enrollment demand profile, status as one of the flagship research institutions in Canada, and large endowment. In our opinion, expected declines in base operating grants from the province and UBC's weaker level of unrestricted financial resources relative to that of similarly rated Canadian peers impair its credit profile somewhat, but we believe the university's profitable land development operations and a moderating debt burden offset these somewhat, because we do not expect the university to issue any additional debt within our two-year rating horizon. The ratings also reflect our assessment of the tight operating environment in which Canadian universities and their supporting provincial governments operate.

In accordance with our criteria for government-related entities, our view of UBC's high likelihood of extraordinary government support reflects our assessment of its "important" role in the province, given that postsecondary education is one of B.C.'s priorities in both expenditure and mandate (after health care and school boards), as well as the university's role as the province's largest by enrollment and its strong research capacity. The province's oversight, program approval rights, and tuition regulation over UBC, as well as the fact the universities in B.C. need provincial approval to access external borrowing and that the province appoints a majority of board members suggest a "very strong" link to it. Also supporting this view is that provincial academic grants account for about 28% of the university's total revenue (excluding medical student funding and other grants).

Despite the provincial support, in our view, UBC operates independently of the B.C. government. It is an autonomous legal entity with ownership of its assets. The province appoints 11 of the 21 board members; however, the board alone is responsible for overseeing student and business affairs, including financial matters, while the university's senate oversees all academic matters. B.C. establishes the tuition framework, which caps the annual domestic tuition increases at 2%, and influences enrollment expansion through operating grants; however, the university has the final decision in most matters, including its long-term strategy.

UBC continues to demonstrate what we view as strong student demand and quality characteristics. In fall 2013, the university had about 51,185 full-time equivalent students (FTEs; including domestic and international students), about 83% of which were undergraduate. The Okanagan campus (UBCO) now contributes more than 7,500 FTEs since opening in fall 2005. We believe UBC has very good student quality, as measured by its selectivity (measured by offers to applicants) of 45% for fall 2013. The average entering grade for the main Vancouver campus has been about 90% for the past three years, among the strongest of its rated peers. Supported by a significant graduate student enrollment of about 17% of total FTEs, UBC has what we consider to be a strong research profile. In fiscal 2013 (year ended March 31), it received almost C$520 million in research awards, about two-thirds from governments and mostly for medical research.

In our opinion, the university's management has demonstrated prudent financial management and budgeting practices and has kept expenditure growth under control where possible, although salary and benefit costs continue to exert the greatest pressure on expenditures, accounting for 61% of total expenses in fiscal 2013. UBC generates what we view as adequate budgetary performance, with the adjusted surplus averaging 2.3% of total expenses for the past four years (3.0% in fiscal 2013). However, we expect that continuing provincial grant cuts and inflationary pressure on the university's cost structure will result in this ratio weakening slightly throughout the two-year outlook horizon but that overall it will remain in a surplus position.

UBC had about C$414.7 million of debt at the fiscal year-end 2013. This equaled almost 20.2% of adjusted expenses or about $8,250 per FTE, while interest costs were only 1.1% of total adjusted revenue in 2013. In our view, this represents a moderate debt burden; we expect upcoming maturities, which sinking funds largely cover, to further improve these metrics relative to those of its peers over the next two years. We also expect that the university will not issue any additional debt during this period, because it requires provincial approval to issue more debt and the province has indicated that no approval will be forthcoming.

We have used the "Principles Of Credit Ratings" in conjunction with "USPF Criteria: Higher Education" as our criteria foundation for our analysis of UBC's creditworthiness. We feel that there is a sufficient degree of similarity between U.S. and Canadian public university systems such that we believe the U.S. higher education criteria is an appropriate methodology for evaluating Canadian universities' credit quality.

Liquidity

UBC's liquidity is good, in our view; at fiscal-year end 2013, its cash and equivalents totaled C$848 million, or 41.4% of adjusted expenses and 204.6% of debt outstanding. These measures as slightly weaker than those of similarly rated Canadian peers because the province's restrictions on external borrowing have resulted in the university internally financing large portions of its capital plan. The value of UBC's endowment was close to C$1.2 billion at fiscal year-end 2013, up significantly from C$868 million in 2009, and at $23,222 per FTE, is in line with that of other established, research-intensive universities in Canada.

The university's unrestricted financial resources available for debt service at fiscal year-end 2013 include sinking fund assets of C$35.2 million and the expendable balance of the endowment of C$363.6 million (consisting primarily of proceeds from land leases). This C$398.8 million equaled 19.4% of adjusted operating expenses during the year and was sufficient to cover 96.2% of debt outstanding. These ratios are slightly weaker than those of UBC's peers, and we expect that debt repayments and further internal financing of capital projects will keep these ratios below those of peers throughout the outlook horizon but that overall, the university will maintain adequate liquidity sufficient to meet all debt service requirements.

Outlook

The stable outlook reflects Standard & Poor's expectations that in the next two years, UBC's student demand and research profile will remain strong and that it will continue to generate adjusted operating surpluses. The outlook also reflects our expectation that the university will not issue any additional debt over the two-year outlook horizon and that debt-to-adjusted expenses will not exceed 20%. We could revise the outlook to negative or lower the ratings if provincial support were to weaken such that UBC returned to accrual deficits, unrestricted financial resources available to support debt substantially eroded, or debt were to unexpectedly rise to more than 30% of adjusted expenses. Although we view an upgrade as unlikely, we could revise the outlook to positive if unrestricted financial resources were to increase significantly, and there was a significant improvement in operating performance, through greater revenue diversification or the province meaningfully increasing its funding to universities or relaxing the tuition cap.

Government Support And Government-Related Entities: Methodology Impact

In accordance with our criteria for government-related entities, our view of a high likelihood of extraordinary government support reflects our assessment of UBC's important role in the province, given that postsecondary education is one of B.C.'s top priorities in both expenditure and mandate (after health care and school boards), and that there are no viable private alternatives. It also reflects the university's unparalleled research capacity in the province, and that it is B.C.'s only institution with a medical school. We believe the provincial oversight, through tuition regulation and debt issuance approval, as well as the appointment of a majority of board members, suggests a very strong link with B.C. As well, supporting this view is that total provincial grants accounted for about 36% of UBC's total revenue in fiscal 2013. The province plans to cut postsecondary funding modestly in the next few years as it aims to bring its budget back into balance by the end of fiscal 2014. Despite this, we believe that B.C. will continue to provide solid financial support to universities and expect that postsecondary education will continue to play a vital public policy role.

The issuer credit rating on UBC incorporates both the university's SACP combined with our analysis of the moderately high likelihood of extraordinary support from the province which reflects its important public policy role as the largest provider of post-secondary education in the province but also our assessment of UBC's legal and operating independence. The stand-alone assessment reflects our view of the university's enterprise and financial risk profile and B.C.'s ongoing financial support, which we believe will remain good over the two-year outlook horizon.

Enterprise Profile

Background

Established in 1908, UBC is a research-intense, doctoral university. It is based in the Vancouver regional district, which has a population approaching 2.5 million. The university also has a smaller campus in Kelowna (UBCO) with about 15% of the total enrollment. UBC has about 51,185 FTEs across its two campuses, making it the third-largest university in Canada. UBC has a strong international reputation, ranking 31st in the 2014 Times Higher Education ranking of the top 400 universities. It has a comprehensive program offering across the 26 faculties, schools, and departments on its main Vancouver campus, including a school of medicine and dentistry, law, applied science, and business; and eight faculties and schools on its Okanagan campus, including a medical school which is tied to UBC's faculty of medicine.

Management

Governing UBC is a 21-member board, 11 of which the province appoints. The university has a robust set of policies in place and general disclosure is good, in our opinion. It prepares audited financial statements and unaudited quarterly updates, as well as limited financial forecasts for four years. Like many universities in Canada, the annual budget is limited to UBC's operating fund, which accounts for close to 60% of the total consolidated revenues. Turnover among senior faculty and staff has been fairly normal, which lends some stability to the credit profile, in our view. The term for the current Chancellor, Sarah Morgan-Silvester, will end in June 2014, and the school is seeking a replacement. In March 2014, the university announced that Dr. Arvind Gupta will succeed Stephen Toope as president and vice-chancellor effective July 1. Dr. Gupta is a computer science professor at UBC and CEO and scientific director of Mitacs, a not-for-profit organization that aims to bring innovative research to market through partnerships with companies, government, and academia.

UBC has several equity investments in for-profit entities and joint ventures. For-profit entities include UBC Properties Investments Ltd., which carries out real estate development activities related to the unique provision in UBC's University Act which allows the university to lease the extensive undeveloped lands adjoining its Vancouver campus to developers via pre-paid 99-year leases, the revenue of which is deferred and recognized over the lease's period. Other for-profit entities include UBC Investment Management Trust (IMANT), which manages the endowment assets and staff pension plan; and UBC Research Enterprises Inc., which manages the development and commercialization of university-developed intellectual property. The various joint ventures mostly involve other universities and do not significantly affect the university's results.

Excellent student demand characteristics

We believe UBC demonstrates excellent student demand and quality characteristics. Total enrollment across its two campuses was 58,284 in the fall of 2013, about 83% of which were undergraduate students. This was up 1.3% from the previous year. Graduate student growth has been what we consider fairly strong over the past several years, averaging 3% in the past five years, reflecting the university's solid grounding in research.

Since its launch in 2006, enrollment at UBCO has been good, in our opinion, and now accounts for 15% of the total FTEs. The campus has met its enrollment targets for the past several years, and growth has average about 11% per year since the launch. UBCO offers arts and science, engineering, business, and nursing, as well as a medical school that is tied to the university's faculty of medicine.

We believe student quality is very good. UBC's selectivity (measured by offers to applicants, including international applications) was 45% in fall 2013, similar to other research-intense universities such as the University of Toronto, Queen's University, and McGill University. The average entering grade on UBC's Vancouver campus has been almost 90% for the past four years, while the retention rate is 88%. Student quality metrics have been lower at UBCO as the university ramps up its enrollment. B.C. forecasts indicate a gradually declining university aged population (18-24) in the next 20 years. However, Vancouver has experienced a large influx of immigrants from the Pacific Rim, allowing UBC to draw a good portion of international students from these countries. To some extent, this shields it from regional applicant downturn. In the fall of 2012, international students accounted for about 9% of the total student population, but 17% of Vancouver campus students.

Financial Profile

Provincial funding cuts continue to stress university budgets

In our view, universities in Canada continue to face significant budgetary pressures from inflation, salary increases, volatile market returns, tuition regulation, and tightening government funding as provinces struggle to rein in deficits. The B.C. government plans to cut undergraduate operating grants 1% in fiscal 2015 and 1.25% the following year. In addition, we don't expect the provincial government to distribute any funds for deferred capital maintenance, which UBC estimates to be about C$588 million and growing by about C$30 million per year. Overall however, we believe that provincial funding remains good. Government grants and contracts (both provincial and federal) continue to provide for about half of all revenues. B.C.'s 2% cap on domestic tuition increases is slightly more rigid than the 3% annual tuition increase cap in Ontario. This could squeeze universities in the province as inflationary pressures related to operations continue to increase (even after excluding salary and benefits) and recent funding increases for UBC have largely focused on expanding the university's medical and pharmacy programs.

Like many universities across the county, UBC has made significant strides to control its costs while at the same time focusing on revenue diversification primarily from international enrollment, the expansion of flexible learning and graduate programs, and improving its processes surrounding the development and commercialization of intellectual property generated on campus. Although the province caps domestic tuition, many graduate programs as well as international tuition is unregulated. For the next several years, UBC has planned for tuition increases of 2% for domestic and returning international undergraduate and graduate students, and 3% for new international students. Based on enrollment projections, this could result in C$6 million-C$8 million in incremental revenue. The university has trimmed expenses where possible in recent years, but has stated that it will be increasingly difficult to do so without cutting into student services.

In fiscal 2013, total revenue (excluding external endowment donations) was up 2.7% on rising revenues from tuition and student fees, provincial funding for post graduate medical students, higher federal grants, and strong investment income. Salary and benefit expenses continue to be the main cost, increasing 5.1% during the year and accounting for 61% of total expenses. For fiscal 2013, UBC generated an adjusted operating surplus of 3.0% of total adjusted expenses (this figures includes external endowment donations). This is generally in line with that of its domestic peers and was flat from the previous year. Debt service coverage was slightly weaker at in fiscal 2013, at 3.8x due to higher-than-usual principal repayments of almost C$29 million due in fiscal 2014. We believe that this measure will improve to about 8x in the next two years on lower debt repayment requirements.

UBC produces balanced budgets for its operating fund and has forecast completely balanced fully consolidated results for fiscal years 2014-2017. During this period, government grants are forecast to drop to 48% of total revenue from about 50% in recent years, while student fees are forecast to contribute about 23% of total revenue from about 20% currently. Based on the university's forecasts, we believe that over our outlook horizon, adjusted surpluses could fall below 2% of total adjusted expenses as expenditure growth continues to outpace revenue growth.

No additional borrowing is likely in the near term

At fiscal year-end 2013, UBC's debt was C$414.7 million, equal to 20.2% of adjusted operating expenses or C$8,252 per FTE. This is down from C$442.6 million in 2011 due to higher-than-usual debt maturities during fiscal 2012. These measures are slightly higher than those for similarly rated Canadian universities but because we do not expect UBC to issue any additional debt in the next two years, we believe that these ratios will improve modestly. The university has about C$29 million of debt maturing in fiscal 2014, but sinking funds, which the province holds and amounted to $35.2 million at fiscal year-end 2013, will largely cover these.

UBC requires provincial approval to issue debt which it can only use for capital purposes. The university has a request to issue about C$200 million but the province has signaled that it is unlikely to permit any universities to take on any additional debt in the medium term. As such, we expect that the total debt burden will moderate to about 18% of adjusted operating expenses by the end of fiscal 2015. If UBC were to obtain approval to borrow up to C$200 million, we believe that total debt could exceed 25% of adjusted revenue, or more than $11,000 per FTE, while unrestricted financial resources could drop to about 70% of its total debt; we view these levels as weak for the ratings. However, we also recognize that unlike many of its Canadian rated peers, UBC's unfunded postemployment liabilities are insignificant, at only 0.3% of total liabilities.

Capital plans

The university is experiencing capital pressures from its first-year residence space guarantee, research growth creating pressure on lab space, and graduate student growth at the Okanagan campus. Priority projects for UBC include Orchard Commons, a mixed use hub, including 1,048 beds, and future home of Vantage College; a new student union building; the expansion of the Advanced Materials & Process Engineering Laboratory; the renewal and expansion of undergraduate Chemistry and Life Sciences teaching laboratories; development of the B.C. Integrated Research Library, a high density storage facility to house 1.7 million volumes from all B.C. research universities; and development of a new aquatic facility. Actual cash expenditures on capital in the past two fiscal years were high, averaging about C$350 million, due in part to the large capital expansion at UBCO, and the university had C$124 million in capital commitments at fiscal year-end 2013, which it will likely fund through provincial contributions, private donations, reserves, and earnings from sales and services. UBC has close to C$460 million in capital projects currently underway (see table 1). Governments, or identified revenue streams (such as land lease revenues) or cost savings will fund many of these, but the university will likely need to finance some internally through operations, reserves, or (in the case of Orchard Commons) internal borrowing from endowments, as UBC is unlikely to be permitted to access external debt-financing. There are also additional capital priorities for which no funding has been identified; these amount to close to C$600 million.

Table 1

University of British Columbia -- Major Capital Projects Underway

Project	Campus	Delivery	Cost	Funding
Undergrad life sciences teaching labs	Vancouver	2016	C$85.0 million	C$42.5 million government; C$42.5 million UBC
Learning centre/library expansion	Okanagan	2017	C$25.5 million	C$17.5 million government; C$8.0 million UBC
Community health sciences centre	Vancouver	2018	C$116.5 million	C$106.5 million government; C$5.0 million fundraising

Table 1

University of British Columbia -- Major Capital Projects Underway (cont.)				
Undergrad chemistry teaching labs	Vancouver	2017	C$72.0 million	C$36.0 million government; C$36.0 million UBC
UBC life building	Vancouver	2016	C$59.1 million	C$29.6 million government; C$29.6 million UBC
School of Architecture and Landscape Architecture Tall Wood Building	Vancouver	2017	C$76.0 million	C$31.0 million government; C$32.5 million UBC; C$12.5 million fundraising
Quantum Matter Institute	Vancouver	2016	C$25.2 million	C$13.6 million government; C$13.6million UBC
Total	N/A	N/A	C$459.3 million	C$165.2 million UBC

N/A--Not applicable.

Endowment likely to continue its growth, but capital commitments will erode financial flexibility

As of March 31, 2013, UBC's endowment had a market value nearing C$1.2 billion, up slightly from fiscal 2012 on good market returns during the year. To protect endowment principal values, the university has held its spending policy at 3.5% since February 2009. UBC's per-FTE endowment was C$23,222 at fiscal year-end 2013, in line with that of other flagship institutions with large endowments.

The university's unrestricted financial resources available for debt service at the end of fiscal 2013 include sinking fund assets of C$35.2 million and the expendable balance of the endowment of C$363.6 million (consisting primarily of proceeds from land leases). This C$398.8 million equaled C$7,935 per FTE and 19.4% of adjusted operating expenses during the year, and was sufficient to cover 96.2% of debt. These ratios are slightly weaker than those of UBC's peers, and because the province has not approved any further borrowing for UBC, we expect that the university will draw significant amounts from its internal resources to fund capital projects, which will impair its financial flexibility and potentially offset the lower debt burden. UBC has two lines of credit for C$40 million and US$5 million, which it uses for cash-flow management. Overall, we believe that the university will maintain adequate liquidity sufficient to meet all debt service requirements.

In our view, the potential revenue from its land leases enhances UBC's credit profile relative to that of its peers. The university has been careful to pace development on the land under its control to influence the type and rate of development and to protect land value. We believe that under a stress scenario, UBC could release more land and accelerate land lease revenues to a greater degree than many other universities could through assets sales.

In September 2011, the university launched a fundraising campaign with a goal of raising C$1.5 billion by 2015. Through December 2013, it had raised C$1.24 billion, including C$213 million in fiscal 2013, suggesting that the target is attainable. Based on donor direction, UBC plans to allocate about a third of the funds to its facilities, equipment and collections, about half to research and other programs, and the remainder to student support.

Minimal postemployment liabilities provide some credit strength

UBC has what we view as very modest unfunded postemployment liabilities related to sick leave benefits and an income replacement plan for disabled employees. Employees fund the costs of the latter plan and UBC is not required to contribute nor is it responsible for any deficit. The accrued benefit obligation for both items at fiscal year-end 2013 was only C$10.7 million, or 0.3% of the university's total liabilities. In addition, there are no significant contingent liabilities outlined in the financial statements. UBC sponsors a defined contribution (DC) plan for faculty and a defined benefit (DB) hybrid plan for staff. The staff hybrid pension plan more closely characterizes a DC plan than a DB one. Also, unlike its peers, UBC is not liable for any deficit in nonpension retirement medical and dental benefits; faculty and staff pay for these. Furthermore, many of the university's peers, particularly those offering DB pension plans, have significant funding obligations, which can have very adverse effects on an issuer's cash flows, operating budget, operating margin, and debt service coverage ratio. We believe UBC's lack of postemployment pension and benefit liabilities place it in an enviable position relative to its peers and bolster its credit profile.

Table 2

University of British Columbia -- Peer Comparison								
	--University of British Columbia--		**--Queen's University--**		**--University of Toronto--**		**--University of Western Ontario--**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Rating at year-end	AA+/Stable/--	AA+/Stable/--	AA+/Stable/--	AA+/Stable/--	AA/Stable/--	AA/Negative/--	AA/Stable/--	AA/Stable/--
Enrollment and demand (%)								
Headcount	57,550	56,198	24,042	24,343	80,899	79,085	38,454	38,038
Full-time equivalent students (FTE)	50,254	48,563	21,904	21,713	70,311	68,088	31,018	30,679
Acceptance rate (offers to applications)	45.8	47.4	41.1	40.5	51.2	52.1	51.0	54.2
Matriculation rate (registrants to offers)	53.0	53.3	42.6	45.1	33.6	32.5	21.9	22.1
Undergraduate FTEs as % of total FTEs	82.5	82.7	82.3	82.6	79.9	79.8	81.3	81.3
Income statement (C$000s)								
Adjusted operating revenues	2,111.8	2,038.4	782.9	762.2	2,523.4	2,395.3	1,049.7	1,030.9
Adjusted operating expenses	2,050.8	1,981.3	776.3	761.7	2,399.4	2,412.2	987.1	955.8
Adjusted operating balance (% of adjusted operating expenses)	3.0	2.9	0.8	0.1	5.2	-0.7	6.4	7.9
Adjusted operating balance before depreciation and amortization	176,073	162,915	37,070	32,740	199,600	56,100	100,953	111,814

Table 2

University of British Columbia -- Peer Comparison (cont.)								
Tuition and student fee dependence (% of adjusted operating revenue)	20.8	20.2	29.8	28.1	37.4	35.4	29.4	27.9
Debt								
Debt outstanding (C$000s)	414,688	415,471	221,074	227,266	726,000	727,700	316,185	216,319
Current debt service burden (% of adjusted operating expenses)	2.6	1.3	2.4	2.5	1.7	1.5	2.4	1.5
Current adjusted debt service coverage (x)	3.8	7.5	2.6	2.4	5.8	2.5	4.9	8.7
Financial resource ratios (%)								
Endowment market value (C$000s)	1,166,994	1,074,824	710,251	616,797	1,663,700	1,518,100	431,853	371,732
Endowment per FTE (C$)	23,222	22,133	32,426	28,407	23,662	22,296	13,923	12,117
Cash and investments (C$000s)	806,546	718,165	871,781	802,251	2,403,600	2,095,600	781,469	694,573
Cash and investments to adjusted operating expenses	41.4	43.6	126.0	115.6	131.4	119.4	108.8	93.1
Cash and investments to debt	204.6	207.9	442.3	387.6	434.3	395.8	339.7	411.3
Adjusted unrestricted financial resources (UFR; C$000s)*	398,779	326,881	371,580	331,177	1,002,700	836,000	391,981	292,715
Adjusted UFR* to adjusted operating expenses	19.4	16.5	47.9	43.5	41.8	34.7	39.7	30.6
Adjusted UFR* to debt	96.2	78.7	168.1	145.7	138.1	114.9	124.0	135.3
Unfunded liabilities to total liabilities	0.3	0.4	17.0	20.7	42.9	43.8	24.4	25.7

*Adjusted UFR equals adjusted internally restricted net assets plus internally restricted endowments.

Related Criteria And Research

Related Criteria

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of April 16, 2014)	
University of British Columbia	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
27-Jul-2006	AA+/Stable/--
26-Apr-2005	AA/Stable/--
12-Feb-2003	AA-/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.