Rating Report

Report Date:
February 25, 2009

Previous Report:
February 6, 2008

Brock University

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The University

Founded in 1964, Brock University is a comprehensive university that offers one of the widest selections of cooperative education programs in Canada to a student body of 16,474 full-time equivalents (FTEs) on its main campus in St. Catharines, Ontario, and a satellite campus in Hamilton. Brock is the only university in the St. Catharines - Niagara CMA, an area with a population of approximately 390,000.

Recent Actions

February 6, 2008
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debentures	A (high)	Confirmed	Stable

Rating Update

DBRS has confirmed the rating on Brock University's (Brock or the University) Senior Unsecured Debentures at A (high) with a Stable trend. Brock's credit profile remains sound with a moderately low debt burden, low post-employment obligations and sound management practices, although operating results are expected to remain challenging over the near term.

As expected by DBRS, operating results came under pressure in 2007-2008 as the University recorded a $4.6 million deficit primarily due to rising labour costs and a one-time drop in enrolment as a result of the double cohort's exit from the undergraduate system after 2006-2007. Lower enrolment had a negative impact on provincial operating grants and reduced one-time funding recognized during the year further contributed to the operating shortfall. However, Brock's total debt burden remained relatively stable at $122 million, or $7,413 per full-time equivalent (FTE), and this continues to be one of the lower debt burdens among DBRS-rated universities.

In 2008-2009, weak operating results will persist as inflationary labour agreements are only partially offset by provincially restricted tuition fee increases and slow growth in enrolment. This has required the use of prior-year reserves and accumulated surpluses in order for the University to present a balanced budget. Brock has publicly commented on the financial challenges facing their institution in the coming years, which could be manageable in isolation, but, when combined with the potential for significant new debt, could lead to downward pressure on the rating if the operating position is not returned to positive territory on a sustainable basis.

Rating Considerations

Strengths
(1) Relatively low post-employment obligations
(2) Moderately low debt burden
(3) Low deferred maintenance estimates
(4) Favourable enrolment outlook in Ontario
(5) Stable revenue base

Challenges
(1) Inflationary salary pressures
(2) Limited ability to grow revenue
(3) Low level of expendable resources
(4) Competition for students

Financial Information

	For the year ended April 30				
	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Operating surplus (deficit) ($ millions)	(4.6)	7.4	10.8	10.2	13.2
Long-term debt ($ millions)	122.1	122.6	123.2	83.9	81.7
Interest costs/total expenditures	3.1%	3.2%	2.8%	2.6%	2.9%
Interest coverage ratio (times)	1.5	3.3	4.4	4.9	5.6
Total endowment ($ millions)*	33.4	33.4	30.1	24.0	19.4
Total enrolment (FTEs)**	16,474	16,831	16,594	15,642	14,348
Annual enrolment change	-2.1%	1.4%	6.1%	9.0%	17.4%
Long-term debt per FTE ($)	7,413	7,282	7,423	5,364	5,692
Endowment per FTE ($)*	2,026	1,984	1,815	1,535	1,350

* Market value. ** Full-time equivalent student (FTE), excluding continuing education.

Rating Considerations Details

Strengths

(1) Post-employment benefit obligations, while growing slowly, are relatively low compared to similarly-rated peers. Accrued benefits grew by less than 1% in 2007-2008, much slower than the 76% growth rate in the prior year and now total just under $11 million.

(2) Relative to other DBRS-rated universities, Brock's current debt level remains manageable at $7,413 per FTE or $122 million. Pending a decision to undertake potential new borrowing for a health and bioscience research facility, it is expected that slow enrolment growth will offset small near-term debt needs and enable Brock to maintain its current debt per FTE ratio.

(3) As a relatively young institution, the University benefits from a maintenance backlog that is somewhat smaller than that of older universities. The Council of Ontario Universities indicated in its July 2007 Facilities Condition Assessment Report that Brock had approximately $14 million in deferred maintenance or about 5% of replacement value. This is a relatively modest level and should not place undue pressure on spending or borrowing needs in the near future.

(4) Although the exit of the double cohort generation from the undergraduate system resulted in lower enrolment for Brock in 2007-2008, population growth in Ontario and rising education requirements in the workplace should continue to provide support for university enrolment over the medium term.

(5) Government funding and tuition fees provide roughly 80% of Brock's total revenues, allowing for fairly stable and predictable revenues. Since enrolment is the key driver of both of these revenue streams, a favourable outlook for enrolment adds weight to the stability of these sources.

Challenges

(1) As with all universities, the primary expense driver is growing salary and benefit costs which account for roughly 80% of operating budget expenditures. The annual growth rate in salaries and benefits has averaged 12.8% over the five years ending in 2006-2007, although in 2007-2008 the growth rate slowed to 5.0%, but is nonetheless expected to continue to be a source of significant pressure.

(2) Combined, provincial and federal government funding accounts for the largest revenue source for Brock at 43.8% of total revenues. While at the low end of the range for DBRS-rated universities (40% to 60%), it nonetheless leaves Brock susceptible to changes in post-secondary funding policies. Additionally, provincial tuition policy restricts the amount that universities can raise tuition fees. Starting in 2006-2007, universities were permitted to raise fees by varying amounts for different programs and different years of study as prescribed by the Province, but the overall tuition fee increase is limited to 5%. This policy remains in place until 2009-2010.

(3) Expendable resources, including debt retirement funds and internally restricted endowments and net assets, remain low relative to higher-rated peers, however, they have grown significantly over the last three years to almost $40 million, or 29% annually. This trend is likely to have reversed in the current year as some internally restricted net assets are allocated towards one-time operating costs but DBRS expects the University to continue to target growth in its expendable resources over the longer term.

(4) Located in the St. Catharines-Niagara CMA, which has a relatively small population of approximately 390,000, Brock must make concerted efforts to attract students from outside of its local catchment area, including the rest of the country and from international origins. As such, Brock competes with large established schools with strong reputations.

2007-08 Operating Performance

In 2007-2008, Brock recorded an operating deficit of $4.6 million, a notable deterioration from the $7.4 million surplus posted in the prior year. However, the 2006-2007 surplus was largely due to the recognition of one-time provincial funding. In 2007-2008, provincial one-time funding continued but this was primarily restricted for capital purposes and as such, did not impact operating results.

Total revenues were 3.1% lower in 2007-2008 compared to the prior year. This was largely due to declining enrolment as the double cohort graduated in 2006-2007, resulting in reduced provincial funding. Higher tuition revenue, as a result of rising fees, provided an offset to declines in other grants.

Total expenditures continued to rise in 2007-2008 by 2.3%, a much slower pace than the 12.1% increase in 2006-2007. As with all universities, salaries and benefits are the main driver of expenditure growth, making up roughly 80% of operating spending. Growth in employment levels has been primarily limited to new program areas, restricting the majority of the increase in salary costs to labour agreement provisions. In 2007-2008, the union representing teaching assistants and part-time instructors reached a three-year agreement expiring in 2010.

Operating Outlook

2008-09 Operating Budget

The University conducts its day-to-day business through four major funds: the operating fund and ancillary enterprises; research and student awards; capital; and endowments. Like most other universities, Brock only produces detailed annual budget estimates for the operating fund and ancillary operations, which account for approximately 80% of total spending.

The 2008-2009 budget remains balanced through the use of centrally and departmentally restricted prior-year reserves and remaining accumulated operating surpluses. Total revenues were forecast to grow by 4% at the time of the budget, however this was largely due to special purpose grants for campus renewal that are to be offset by corresponding expenditures. Tuition fees have increased by 4.5% although other changes to Brock's tuition fee structure and the impact of lower-than-expected enrolment in 2007-2008 will mostly offset provincially allowed rate increases. Based on a mid-year update, revenues are tracking just slightly above budget as higher-than-expected enrolment numbers provide a small boost to tuition revenue.

Expenses were forecast to rise by almost 8% at the time of the 2008-2009 budget, split equally between base budget increases and campus renewal funds mentioned above. Labour agreements have been reached with both faculty and support staff which removes some uncertainty in cost estimates. In 2009, only agreements with trades, maintenance and custodial staff are up for negotiation, which provides the University with some stability while entering a more challenging period of economic uncertainty. The mid-year budget update indicates expenditures that are noticeably above the approved budget, although almost all of this increase represents the use of prior year one-time appropriations which will not result in ongoing costs. Higher teaching costs and outlays for a university branding campaign are the primary uses of newly-approved spending.

Outlook

Fiscal flexibility will be limited in 2009-2010 as enrolment is expected to increase only modestly, limiting growth in operating grants and tuition fees. In addition, no one-time provincial operating grants are anticipated by Brock, a prudent assumption in light of the Province's weakening fiscal outlook. Brock does not expect to balance its operating budget next year but will instead require a multi-year recovery plan utilizing further revenue enhancement measures and cost reduction efforts. DBRS notes that a prolonged operating deficit and sustained weakness in interest coverage ratios could lead to downward pressure on the University's financial profile.

Capital Plan
In light of Brock's relatively new facilities and having received $6.7 million of one-time provincial funding for capital renewal projects for 2008-2009, any maintenance backlog is expected to be manageable.

In June 2008, the University assumed a $3 million mortgage on newly-acquired land with commercial space while the Learning Commons, a $7.1 million project, was completed in October 2008. Construction on the $8.5 million addition to Welch Hall is currently underway, fully funded and expected to be completed by December 2009.

Other small capital projects under consideration include a food service marketplace and a new academic building for international students which may require modest debt financing. A relocation of Brock's School of Fine and Performing Arts to downtown St. Catharines is being contemplated. The University expects to share costs with the City and senior levels of government while limiting its contributions to upfront donations. In addition, plans for a new health and bioscience research facility are being evaluated that would require Brock to contribute roughly $33 million through a combination of capital donations and debt.

Debt and Liquidity

Summary
Brock's debt was relatively unchanged in 2007-2008 at $122 million while lower enrolment resulted in a modest increase in debt per FTE to $7,413 from $7,282 the prior year. This level of debt compares favourably with other similarly-rated universities, leaving modest additional borrowing capacity within its current rating. An updated valuation of Brock's hybrid pension plan (consisting of a defined contribution plan subject to a minimum benefit guarantee) is currently underway and while it could result in a return to deficit, Brock expects any shortfall to be manageable. The University also provides post-employment benefits and as of fiscal year-end, this liability was essentially unchanged at $11.0 million, a low level in relation to other DBRS-rated universities.

Endowment funds were relatively unchanged in 2007-2008 at $33.4 million or $2,026 per FTE. In recent years, this has been an area that has helped improve Brock's financial flexibility but is unlikely to in the current fiscal year in light of the rapid downturn in equity markets. The University still trails its peers in this area. A portion of the endowment funds contribute to expendable resources which have continued to grow, reaching $39.8 million and now represent 34% of university debt, a level that is still near the low end relative to other DBRS-rated universities.

The University has established internal sinking funds totaling $9.0 million to be used primarily to fund debt maturities in 2009. Further annual contributions are planned to cover the $93 million debenture as it comes due in 2045.

Weak operating results contributed to a decline in Brock's interest coverage ratio to 1.5 times in 2007-2008 from 3.3 times in the prior year. DBRS expects the University to move forward on a plan to restore operating results which should help to rebuild the interest coverage ratio back to historical levels. Should this fail to materialize over the medium term, this could place downward pressure on the rating.

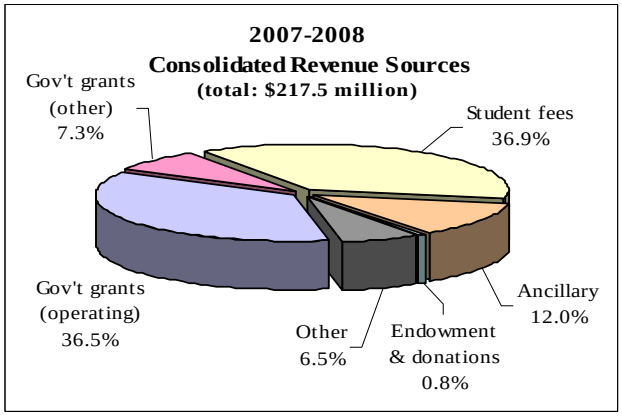
Outlook
DBRS expects a slight increase in debt in 2008-2009 owing to the $3 million mortgage assumed as a result of land and buildings purchased. On an FTE basis, a small expected increase in enrolment will provide a partial offset. In 2009-2010, debt per FTE is expected to edge downwards again as maturing debt will be repaid with sinking fund assets and it is expected that any currently approved projects can be financed with internal funds.

Construction of a new health and bioscience research facility is also in the initial planning stages, which would require Brock to contribute roughly $33 million. The University intends to fund all of its contribution through capital donations, however this could initially require significant debt financing before donations are realized. Based on current enrolment projections and other small projects previously mentioned in the capital plan, DBRS estimates that borrowing for the University's full contribution could push the debt burden well above $9,000 per FTE by 2012-2013. DBRS notes that to ensure this debt level remains manageable within the current rating, Brock would need to restore operating results to positive territory on a sustainable basis.

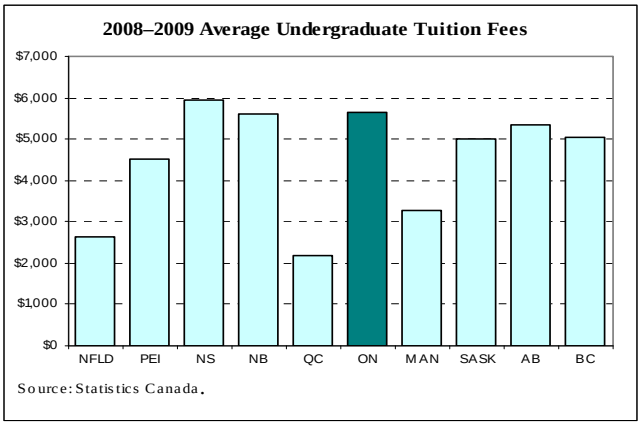
University Funding in Ontario

Canadian universities generally have access to three key sources of revenue for their core teaching and research activities: (1) government grants; (2) student fees; and (3) fundraising/endowment income. For Brock, these accounted for about 82.0% of total revenues in 2007-2008.

Still, the main source of revenue for universities, provincial government funding, has seen its importance reduced over the past decade in Ontario and in many other provinces, due to provincial budget cuts introduced in the mid-1990s. In compensation for the budget cuts, Ontario universities were given full fee-setting discretion for a range of deregulated programs and were allowed to raise tuitions substantially for those programs. This led to an increase in the universities' reliance on tuition fees and other private-funding sources, as has occurred in other provinces. This trend was put on hold when the Province decided to freeze tuition fees for 2004-2005 and 2005-2006, while a review of university funding was undertaken. In March 2006, the Province announced a new tuition policy that permits universities to increase average tuition fees by up to 5% annually beginning in 2006-2007. To be eligible for these tuition increases, universities must put in place a student-access guarantee, which requires universities to fund students' unmet financial needs through student aid. As well, universities are required to continue to implement quality initiatives.



Government Funding (provincial and federal – 43.8%)
Includes: (1) operating grants, (2) research grants and contracts, and (3) capital grants. Operating grants are by far the most important and stable revenue source of the three. Operating grants are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic income units to each student based on the program in which they are enrolled. Targeted funding, which is mainly aimed at expanding enrolment in high-demand programs, and performance-based grants also account for a small, though growing portion of provincial operating funding.



No inflation adjustment is provided in base operating funding in Ontario. However, the Province continues to provide Ontario universities with full average funding for enrolment growth. No significant new funding changes have been made since the 2005-2006 provincial budget, which boosted university funding in response to the recommendations of the post-secondary review. Also important are government grants for research and capital projects. The federal government generally accounts for 65% to 75% of total public research funding, while the Province provides the bulk of capital funding.

Student Fees (36.9%): The tuition regime introduced in March 2006 in Ontario permits universities to increase average tuition fees by up to 5% annually beginning in 2006-2007, with fee-increase limits varying across programs and years of study. For example, arts and science tuitions can be increased by 4.5% for the first year of study and 4% for the remaining years, and graduate and professional program tuition fees can be increased by 8% for the first year of study and 4% in the following years. Overall, however, a university's average tuition increase will not be allowed to exceed 5%. For Brock, tuition fees are expected to increase by the maximum allowable in 2008-2009, although Brock's current program mix does not allow them to achieve the full 5% average increase.

Fundraising and Endowment Contributions (0.8%)
Unrestricted donations are recognized as revenue when received, while funds accepted with external restrictions or designated by the Board of the University are added directly to endowments and reported as revenue when related expenses are incurred.

Like many other Canadian universities, fundraising represents only a small portion of revenues at Brock. However, the University has expanded its fundraising efforts in recent years, which should be aided in the long-run by the rebranding campaign. Although Brock's endowments are still small relative to other DBRS-rated universities ($2,026 per FTE in 2007-2008), the funds have grown notably in recent years from increased donations, encouraged by intensified fundraising efforts and government-matching programs for certain contributions.

Brock University

Consolidated Balance Sheet

($ thousands)	For the year ended April 30				
Assets	**2008**	**2007**	**2006**	**2005**	**2004**
Cash and short-term investments	70,287	74,745	75,640	32,714	14,559
Receivables	5,623	6,489	5,515	5,518	7,823
Restricted investments (1)	80,622	36,927	36,219	29,146	21,490
Capital assets	176,983	179,797	169,813	161,904	164,731
Other assets (2)	6,285	5,818	6,357	3,451	3,049
Total Assets	339,800	303,776	293,544	232,733	211,652
Liabilities and Equity					
Payables and other current liabilities	30,643	33,506	34,747	29,177	27,151
Deferred capital contributions	105,237	67,749	67,196	63,108	60,629
Employee future benefits obligations	8,241	6,918	5,039	5,469	5,442
Long-term debt (2)	122,122	122,552	123,176	83,897	81,666
Total liabilities	266,243	230,725	230,158	181,651	174,888
Committed funds (3)	33,626	33,681	19,907	12,639	5,643
Endowment - internally restricted (1)(4)	3,421	2,768	2,662	2,551	2,697
Endowment - externally restricted (1)(4)	29,949	25,830	23,683	18,786	14,507
Equity in capital assets	6,503	10,744	16,109	18,568	23,391
Unrestricted net assets	58	28	1,025	(1,462)	(9,474)
Total Liability and Equity	339,800	303,776	293,544	232,733	211,652
Commitments & Other Obligations	2008	2007	2006	2005	2004
Capital commitments	2,594	2,981	15,431	5,648	16,255
Pension plan deficit (if any - funding basis)	-	-	-	1,162	1,162
Post-employment benefits	10,990	10,947	6,220	6,732	6,839
	13,584	13,928	21,651	13,542	24,256

(1) Market value in 2008. Book value for 2007 and prior years.
(2) Includes deferred refinancing charges for 2008 to be consistent with prior years.
(3) Funds set aside for specific purposes (e.g. departmental carry-forwards).
(4) Externally restricted endowment assets consist of funds that are subject to restrictions imposed by the donors. Internally restricted endowment assets are funds whose use is restricted internally by the Board of Trustees.

Brock University

Consolidated Financial Summary (DBRS-Adjusted)

($ thousands)	For the year ended April 30				
	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Total operating revenue	217,509	224,480	204,383	197,747	174,481
Total expenditures	222,128	217,068	193,563	187,562	161,328
Operating Balance Before Transfers	(4,619)	7,412	10,820	10,185	13,153
One-time revenues (expenses)	-	-	(3,524)	-	-
Contributions from (to) committed funds (1)	55	(13,774)	(7,268)	(6,996)	(3,002)
Decrease (increase) in investment in capital assets	4,241	5,365	2,459	4,823	(146)
Change in Unrestricted Net Assets	(323)	(997)	2,487	8,012	10,005
Revenue					
Tuition fees	80,240	77,690	73,418	69,162	63,257
Provincial grants	79,394	85,094	77,032	68,934	64,146
Research grants	12,065	13,868	12,874	15,888	9,751
Grants and other revenues for restricted purposes	2,295	4,660	4,356	6,200	2,006
Investment income	4,839	4,916	1,107	1,174	1,959
Ancillary services	26,124	26,066	24,689	23,947	22,368
Amortization of deferred capital contributions	3,875	3,578	3,296	4,203	3,280
Other revenue	8,677	8,608	7,611	8,239	7,714
Total Revenue	217,509	224,480	204,383	197,747	174,481
Expenditures					
Academic	124,848	118,892	101,150	92,326	79,171
Student aid	10,116	9,602	9,483	9,328	7,974
Research	12,065	13,868	12,874	15,888	9,751
Maintenance, administration and student support	38,592	37,634	36,836	36,025	33,563
Interest	6,903	6,933	5,497	4,845	4,634
Amortization	12,165	12,040	11,320	13,024	11,390
Ancillary services	17,487	18,020	16,373	16,126	14,845
Other expenses	(48)	79	30	-	-
Total Expenditures	222,128	217,068	193,563	187,562	161,328
Salary and Benefit Expenditures	143,352	136,585	122,673	112,595	100,627
Gross Capital Expenditures	9,351	22,024	19,229	10,197	27,135

(1) Internally restricted funds set aside for specific purposes.

Statement of Cash Flow (DBRS-Adjusted)

($ thousands)	For the year ended April 30				
	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Operating balance before fund contributions	(4,619)	7,412	10,820	10,185	13,153
Amortization	12,165	12,040	11,320	13,024	11,390
Other non-cash adjustments	(3,923)	(3,499)	(3,266)	(4,203)	(3,280)
Cash flow from operations	3,623	15,953	18,874	19,006	21,263
Change in working capital	(1,093)	124	5,389	3,956	1,689
Operating cash flow after working capital	2,530	16,077	24,263	22,962	22,952
Net capital expenditures*	32,012	(17,893)	(11,845)	(3,515)	(22,831)
Free cash flow	34,542	(1,816)	12,418	19,447	121

* Defined as gross capital expenditures less contributions restricted for capital purposes.

Brock University

Summary Statistics (DBRS-Adjusted)

	For the year ended April 30				
	2007-2008	**2006-2007**	**2005-2006**	**2004-2005**	**2003-2004**
Total Enrolment (FTE) (1)	16,474	16,831	16,594	15,642	14,348
- Undergraduate	86%	88%	89%	89%	91%
- Graduate	14%	12%	11%	11%	9%
Total annual enrolment change	-2.1%	1.4%	6.1%	9.0%	17.4%
Total Employees (headcount)	5,773	5,467	5,147	4,911	4,541
- Faculty	601	581	549	524	499
Revenue Mix (as % of total DBRS-adjusted revenue)					
- Government funding (federal + provincial)	43.8%	45.7%	45.6%	45.0%	44.2%
- Student fees	36.9%	34.6%	35.9%	35.0%	36.3%
- Ancillary	12.0%	11.6%	12.1%	12.1%	12.8%
- Investment and endowment income	2.2%	2.2%	0.5%	0.6%	1.1%
- Other	5.0%	5.9%	5.9%	7.3%	5.6%
Debt and Liquidity Analysis					
Total debt ($ millions)	122.1	122.6	123.2	83.9	81.7
- Per FTE student ($)	7,413	7,282	7,423	5,364	5,692
Debt, contingencies & commitments ($ millions) (2)	133.0	132.5	143.6	95.0	103.4
- Per FTE student ($)	8,071	7,870	8,656	6,074	7,204
Cash and cash equivalents ($ millions)	70.3	74.7	75.6	32.7	14.6
- As % of current liabilities	229%	223%	218%	112%	54%
Interest costs as % of total expenditures	3.1%	3.2%	2.8%	2.6%	2.9%
Interest coverage ratio (times)	1.5	3.3	4.4	4.9	5.6
Endowment Funds					
Total market value ($ millions)	33.4	33.4	30.1	24.0	19.4
- Per FTE student ($)	2,026	1,984	1,815	1,535	1,350
- Annual change	-0.1%	10.9%	25.4%	24.0%	33.0%

Payout ratio: determined annually, based on three-year average of the market value of endowments.

(1) Full-time equivalent, excluding continuing education. (2) Includes accrued employee future benefits.

Brock University

Report Date:
February 25, 2009

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debentures	A (high)	Confirmed	Stable

Rating History

	Current	2008	2007	2006	2005
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)

Related Research

- Rating Canadian Universities, October 3, 2007.

Note:
All figures are in Canadian dollars unless otherwise noted.

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