



University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS - FINANCE

TO: Audit Committee

SPONSOR: Sheila Brown

CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

DATE: June 1, 2005 for June 22, 2005

AGENDA ITEM: Business Board Item 5(b)

ITEM IDENTIFICATION:

Borrowing strategy – annual status report to April 30, 2005

JURISDICTIONAL INFORMATION:

The Business Board approves the financing of capital projects.

PREVIOUS ACTION TAKEN:

The Business Board approved borrowing of \$160.0 million on January 15, 2001, \$200.0 million on June 19, 2003 and \$150.0 million on June 17, 2004. It also approved a borrowing strategy on June 17, 2004. Prior to 2001, the University had outstanding long-term debt of \$61.2 million.

HIGHLIGHTS:

This report provides the Business Board with an update on the borrowing strategy. It updates the borrowing capacity to reflect the April 30, 2005 financial results, compares the borrowing capacity to approved borrowing, and reports on the long-term borrowing pool (LTBP), which is the University's internal sinking fund which accumulates funds for repayments of external borrowing.

Background

The borrowing strategy approved by the Business Board on June 17, 2004 included several elements:

-that the internal borrowing capacity limit of \$200.0 million of internal loans from EFIP for the current capital plan and other requirements be maintained, along with the recognition that some or all of this sum may need to be refinanced externally at some time, if future cash flow patterns would change.

-that the target borrowing capacity limit be defined as 1/3 of net assets, smoothed over 5 years, and the maximum borrowing capacity limit be set at 40% of net assets smoothed over 5 years. At April 30, 2004, the maximum borrowing capacity was \$587.0 million.

-that principal and interest repayments related to bullet debenture borrowing be placed in the LTBP, or other sinking fund mechanism, and, together with investment income, be used to pay periodic interest payments to lenders, and to pay issue and ongoing administrative costs, with the expectation that the net sum from these additions and draw downs will be sufficient to repay the bullet debentures at maturity.

At the same time, the Business Board approved an additional \$150.0 million in external borrowing, bringing approved external borrowing to \$565.1 million, \$21.9 million less than the maximum external borrowing limit of \$587.0 million.

At April 30, 2004, outstanding external borrowing was \$415.1 million comprising: \$55.1 million in previously arranged loans, \$160.0 million Series A debenture, and \$200.0 million Series B debenture.

Borrowing is managed within the University through an internal loan programme that blends both external and internal financing sources. Projects and divisions assume amortizing loans with fixed income repayment terms, and make regular principal and interest payments on these loans.

Update to April 30, 2005

To April 30, 2005, the strategy for borrowing \$200.0 million of internal funds was unchanged. Cash flow patterns support its continuance. At April 30, 2005, \$89.6 million of internal funds had been loaned under the internal loan programme. No defaults have occurred on any of these loans.

At April 30, 2005, the external borrowing capacity limit is \$593.9 million, representing 40% of net assets smoothed over 5 years. Approved external borrowing is \$560.6 million, \$33.3 million less than the maximum borrowing capacity.

Outstanding external borrowing at April 30, 2005 was \$410.6 million, slightly lower than the figure at April 30, 2004, due to principal repayments on certain loans arranged prior to 2001. To date, the additional \$150.0 million approved in June 2004 has not been borrowed, since its timing depends on the University's cash requirements.

The LTBP accumulates funds for repayment of the Series A and B debentures. At April 30, 2005, the LTBP had a balance of \$7.9 million. The income statements and balance sheet for the LTBP are attached as appendix A.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

For information.