



University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS - FINANCE

TO: Audit Committee and Business Board

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AGENDA ITEM: **Business Board item 7**

ITEM IDENTIFICATION:

Borrowing strategy – annual status report to April 30, 2006

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 approved 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, 2006 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.

	(in millions of dollars)		
	<u>External</u>	<u>Internal</u>	<u>Total</u>
Maximum Borrowing Capacity	621.2	200.0	821.2
Approved Borrowing	561.4	200.0	761.4
Oustanding External Borrowing	483.7		483.7
Borrowing Allocated			730.5

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 external borrowing capacity limit be defined as 1/3 of net assets, smoothed over 5 years, and the maximum external borrowing capacity limit be set at 40% of net assets smoothed over 5 years.
- 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.

On June 17, 2004, the Business Board approved an additional \$150.0 million in external borrowing.

At April 30, 2005, the approved external borrowing was \$560.6 million comprising: \$50.6 million of pre-2001 loans and \$510 million of new external borrowing. At April 30, 2005, outstanding external borrowing was \$410.6 million comprising: \$50.6 million of pre-2001 loans, \$160.0 million Series A debenture, and \$200.0 million Series B debenture. The \$150 million approved on June 17, 2004 had not yet been borrowed.

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, 2006

To April 30, 2006, the strategy for borrowing \$200.0 million from internal funds was unchanged. Cash flow patterns support its continuance. At April 30, 2006, \$109.5 million of internal fund had been loaned under the internal loan programme. No defaults have occurred on any of these loans.

At April 30, 2006, the maximum external borrowing capacity limit is \$621.2 million, representing 40% of net assets smoothed over 5 years.

In February 2006, the approved external borrowing increased by \$2.7 million, to reflect an interest-free loan of \$2.7 million from the City of Toronto for the St. George Lighting Retrofit and Chiller Replacement project. This increase, together with principal

repayments for pre-2001 loans, brings the approved external borrowing to \$561.4 million, which is \$59.8 million less than the maximum borrowing capacity.

Outstanding external borrowing at April 30, 2006 was \$483.7 million, an increase of \$73.1 million, due to the issue of the Series C debenture on November 16, 2005 for \$75 million offset by principal repayments on certain loans arranged prior to 2001. The \$75 million debenture is part of the \$150 million borrowing approved in June 2004, with the remaining \$75 million yet to be borrowed, depending on the University's cash requirements.

As of April 30, 2006, \$61.3 million of the \$75 million Series C debenture has been loaned out internally.

The LTBP accumulates funds for repayment of the Series A, B and C debentures. At April 30, 2006, the LTBP assets had a balance of \$20.4 million. The \$20.4 million consists of principal repayments from internal loans of \$20.2 million and an internally restricted asset of \$0.2 million. The internally restricted asset of \$0.2 million represents the excess of cumulative LTBP earnings and interest payments from internal loans over the debentures' interest and expenses.

With time, the principal repayments from internal loans together with investment income on these funds are expected to grow to fund the debenture payments at maturity dates. The income statement and balance sheet for the LTBP are attached as appendix A.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

-None

RECOMMENDATION:

For information.