UNIVERSITY OF TORONTO

University of Toronto

Debt Strategy

2012

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Recommended Debt Strategy

Debt policy limit:

The proposed debt policy limit, based on a 5% debt burden ratio and a 0.8 viability ratio, took into account all of the elements considered in this paper:

- the need for debt,
- the appetite for debt,
- the financial parameters,
- the comparisons,
- the projected split between internal and external debt and
- the projected timing of actual additional debt issuance.

The internal debt component is currently set at $350 million and it is assumed that this level would remain unchanged through the projection period. The current cash flow projections support that recommendation. Cash flows are projected to be sufficient to allow considerable flexibility in bridge-financing future external debt issuance. An upper limit of 40% of EFIP has been established to recognize the need for liquidity and to provide for any possible future changes in cash flow patterns.

Given the large obligation that the University has with respect to the pension contribution strategy to fund the pension deficit, an additional metric will also be calculated to monitor the combined impact of debt service and pension payments on the University's ability to pay.

All other elements of the debt strategy, its associated processes and procedures, and the Business Board approvals that are currently in place are recommended to remain unchanged. The proposed debt strategy may be summarized as follows:

Debt:

Debt includes all long-term external and internal borrowed funds obtained by any means (e.g. debenture, bank loan), and excludes letters and lines of credit and all short-term and medium term internal financing for purposes such as fund deficits. External debt includes all funds borrowed from third party lenders while internal debt includes funds borrowed by the University from its expendable cash flows.

Debt policy limit:

The debt policy limit includes both internal and external debt with fungibility between them. It is determined on the basis of debt affordability, moderated when necessary and appropriate by considerations of debt capacity. Debt affordability is measured by the debt burden ratio (principal plus interest divided by total expenditures) and the maximum debt policy limit is calculated using a debt burden ratio of 5%. Debt capacity is measured by the viability ratio (expendable resources divided by debt). Annually the debt policy limit will be calculated on the basis of the 5% debt burden ratio. If the viability ratio associated with that debt policy limit is less than 0.8, then consideration will need to be given to decide whether to moderate the debt policy limit. The debt policy limit includes both internal and external debt, and the internal debt component is limited to 40% of the Expendable Funds Investment Pool (internal debt outstanding divided by audited April 30 EFIP balance plus internal debt outstanding).

Credit ratings:

Credit ratings will continue to be excluded from policy determination because they are subject to many external factors, including changes in rating agency methodologies over time.

Long-term borrowing pool (LTBP):

The long-term borrowing pool is the sinking fund that accumulates funds for repayment of external debt. Principal and interest payments related to bullet debenture borrowing will continue to be placed in the LTBP, and, together with investment income, will 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 drawdowns will be sufficient to repay the bullet debentures at maturity.

Borrowing method:

The borrowing method (e.g. private placement or other method) continues to be determined by the senior officer responsible for financial matters.

Internal borrowing programme:

Processes and procedures continue to be determined by the University Administration. The senior officer responsible for financial matters is authorized to issue internal loans from either internal or external debt for projects where borrowing has been authorized by the Business Board.

Comparisons to others:

- *Moody's U.S. Public College and University Medians* continues to be the key comparator because the data is readily available and published annually for a large comparison pool that is relevant for U of T.
- Comparisons to other Canadian universities will periodically also be provided to governors.

Accountability to governors:

- the current Business Board approvals continue (approval of this debt strategy; approval of all capital projects with a borrowing component; approval of the legal borrowing resolutions required from time to time for issuance of external debt).
- Regular reporting to Business Board continues.