



# University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

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TO: Business Board

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DATE: June 3, 2004 for June 17, 2004

AGENDA ITEM: 7(b)

## **ITEM IDENTIFICATION:**

### **Long-term Borrowing Pool – Status Report**

## **JURISDICTIONAL INFORMATION:**

See below, previous action taken.

## **PREVIOUS ACTION TAKEN:**

Business Board authorized borrowing of \$160 million on January 15, 2001 and borrowing of \$200 million on June 19, 2003. Those resolutions provided for borrowed funds to be placed in the Long-Term Borrowing Pool (LTBP) until their allocation to projects, and for periodic reports to Business Board on the status of LTBP. This is the first such periodic report.

## **HIGHLIGHTS:**

On July 18, 2001, the University issued a \$160 million 30 year debenture. The interest rate was 6.78%, with interest payable semi-annually and the principal repayable on July 18, 2031. On December 15, 2004, the University issued a \$200 million 40 year debenture. The interest rate was 5.841%, with interest payable semi-annually and the principal repayable on December 15, 2043.

As of April 30, 2004, the two debenture issues were allocated as follows:

<b><u>Loans Issued for:</u></b>	<b><u>Effective</u></b>	<b><u>Amount</u></b>	<b><u>Interest</u></b>
	<b><u>Date</u></b>	<b><u>(in millions)</u></b>	<b><u>Rate</u></b>
University Infrastructure Investment Fund 1st tranche	Jul-01	30.0	6.91%
Purchase of 30/35 Charles Street	Sep-01	13.0	6.91%
Purchase of Medical Arts Building	Feb-02	14.3	6.94%
Contribution towards MARS	Apr-02	5.0	7.14%
University Infrastructure Investment Fund 2nd tranche	May-02	30.0	7.15%
Construction of Bahen CIT garage	May-02	11.0	7.05%
Construction of Bahen CIT building	Jul-03	17.7	7.05%
University Infrastructure Investment Fund 4th tranche	Jul-03	19.6	7.12%
Operating 1st loan for matching requirements	Jul-03	14.0	7.12%
Operating 2nd loan for matching requirements	Sep-03	22.3	6.72%
University Infrastructure Investment Fund 3rd tranche	Jan-04	29.8	6.52%
Purchase and renovation of 89 Chestnut	Jan-04	73.6	6.62%
Construction of USTC residence phase IV	Jan-04	16.2	6.62%
Construction of UTM residence phase VII	Jan-04	15.2	6.62%
Construction of New College residence	Jan-04	25.0	6.62%
Construction of Academic Resource Centre	Jan-04	7.2	6.37%
UTSC Management building	Mar-04	9.6	6.27%
UTSC Arts & Administration building	Mar-04	6.5	6.27%
Total Allocation		<u>360.0</u>	

These capital project allocations are managed as part of a comprehensive internal borrowing program, which the University has designed to harness both the debenture proceeds and internal cash. In each of these cases, the interest rate charged to the internal borrower is the greater of:

- (1) the Canadian swap curve plus a spread of 100 basis points, and
- (2) the debenture issue rate, plus issuing cost and any shortfall between interest earned and interest to be paid out between the debenture's issue date and the date on which the internal borrower receives the funds.

The proceeds from the debentures were placed into the LTBP and invested by the University of Toronto Asset Management Corporation until they were allocated to capital projects. Principal and interest payments from internal borrowers are also invested in the LTBP and are used to pay the semi-annual debenture interest payments, with the excess

being accumulated and invested to repay the principal at the various debenture maturity dates.

As of April 30, 2004, the LTBP had a committed capital balance of negative \$3.5 million and a negative fund balance of \$0.1 million. This balance is made up of:

Income Statement:

Net investment income on cash balances	\$ 7.5 million
Interest income from internal loans	\$23.8 million
Fees and amortization of issue costs	(\$ 0.3 million)
Semi-annual interest payments to bond holders	<u>(\$34.5 million)</u>
Committed capital balance	<u>(\$ 3.5 million)</u>

Balance Sheet:

Committed capital	(\$ 3.5 million)
Unamortized bond issue costs	(\$ 2.4 million)
Principal payments from internal loans	<u>\$ 5.8 million</u>
LTBP fund balance as at April 30, 2004	<u>(\$ 0.1 million)</u>

The current status of the LTBP is in line with financial projections. Over time principal and interest payments from internal lenders are expected to fund the required interest payments plus issue and administration costs, and, together with investment income, to accumulate sufficient funds to repay the debentures at their respective maturity dates.

**FINANCIAL AND/OR PLANNING IMPLICATIONS:**

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**RECOMMENDATION:**

For information.