University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS - FINANCE

TO: Audit Committee and Business Board

SPONSOR: Sheila Brown
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca
DATE: June 5, 2009 for June 17, 2009 and June 18, 2009

AGENDA ITEM: Audit Committee item 6
Business Board item 5

ITEM IDENTIFICATION:

Borrowing Capacity and Status of the Long Term Borrowing Pool to April 30, 2009

JURISDICTIONAL INFORMATION:

The Business Board approves the financing of capital projects.

PREVIOUS ACTION TAKEN:

The Business Board approved external borrowing of $712.7 million over the period from January 15, 2001 to February 11, 2009. It also approved a borrowing strategy on June 17, 2004 which was most recently reconfirmed in February 2009. Prior to 2001, the University had approved outstanding long-term debt of $61.2 million. Regular updates have been provided to the Board, most recently on April 27, 2009.

HIGHLIGHTS:

This report provides the Business Board with an update on the borrowing capacity and the long-term borrowing pool (LTBP). It updates the borrowing capacity to reflect the April 30, 2009 financial results and compares the borrowing capacity to approved borrowing. It also reports on the long-term borrowing pool, which is the University's internal sinking fund that accumulates funds for repayments of external borrowing.

Summary of Borrowing Capacity at April 30, 2009
(in millions of dollars)

	External	Internal	Total
Maximum Borrowing Capacity	758.4	200.0	958.4
Approved Borrowing	753.7	200.0	953.7
Outstanding Borrowing	554.0	196.6	750.6

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 maximum external borrowing capacity limit be 40% of net assets averaged 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.

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.

At April 30, 2008, external outstanding borrowing was $556.3 million comprising: $44.5 million of pre-2001 loans, $1.8 million interest-free loan from the City of Toronto, $160.0 million Series A debenture, $200.0 million Series B debenture, $75.0 million Series C debenture and $75.0 million Series D debenture.

Update to April 30, 2009

During 2009, a review of the borrowing strategy was undertaken and a report was presented to the Business Board on February 11, 2009 which concluded that the current borrowing strategy is financially prudent and provides sufficient capability to meet key priorities for the next several years under current accounting rules.

During 2009, the Business Board approved an additional external borrowing of $200.0 million.

At April 30, 2009, the strategy for borrowing $200.0 million from internal funds was unchanged, with $196.6 million loaned under the internal loan programme.

At April 30, 2009, the maximum external borrowing capacity limit is $758.4 million, representing 40% of net assets smoothed over 5 years.

Outstanding external borrowing at April 30, 2009 was $554.0 million, a decrease of $2.3 million, due to principal repayments for the $1.8 million loan from the City of Toronto and for loans arranged prior to 2001.

(Please note that the external borrowing of $558.9 million reported in the University of Toronto financial statements reflects the application of new accounting rules which included the netting of unamortized discounts for the external loans issued and a market value adjustment for swap contracts related to pre-2001 loans.)

As of April 30, 2009, Series A, B, C and D debentures were fully loaned internally.

The LTBP accumulates funds for repayment of the Series A, B, C and D debentures. At April 30, 2009, the LTBP assets amounted to $48.4 million, consisting of principal repayments from internal loans of $62.9 million and an internally restricted deficit of $14.5 million. The internally restricted deficit of $14.5 million is mainly as a result of investment losses of $17.3 million in 2009.

The internally restricted net assets mainly represent the difference between investment earnings from LTBP plus interest collected from internal loans and interest payments made to bond holders. 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.