UNIVERSITY OF TORONTO

Debt Strategy

Business Board

November 5, 2012

Issues

- Internal and external debt policy limits are separately defined and not fungible.

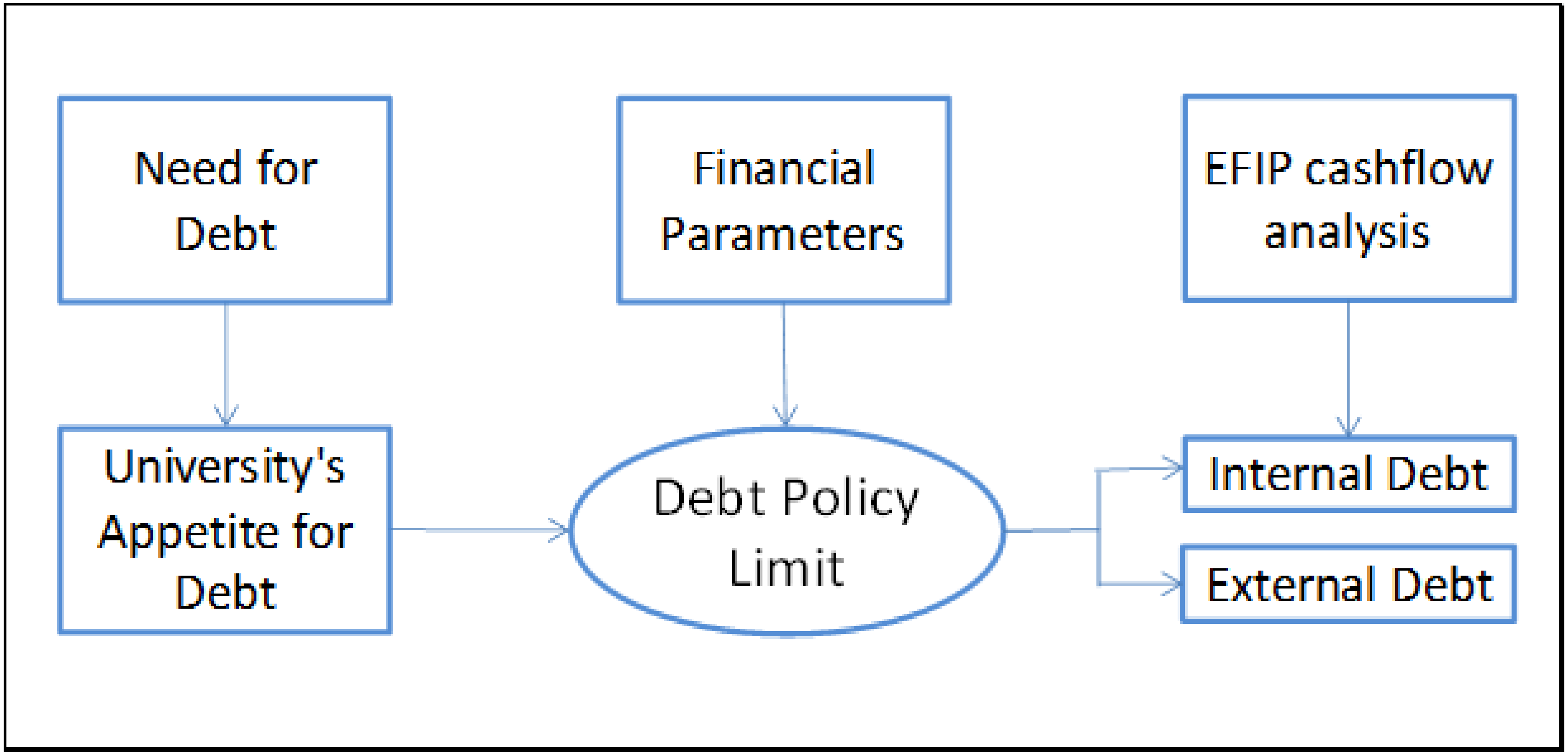
- There is no provision for bridge-financing external debt issuance with internal debt.

- There is no provision for re-financing internal debt with external debt.

- External debt policy limit is affected by investment return volatility and is currently less than allocations.

- New accounting rules will significantly increase net assets, thus increasing the external debt policy limit.

Proposed Solution



Deciding on a Debt Policy Limit

- **Need for Debt:**
  - **based on core principles and careful analysis of needs and benefits.**

- **Appetite for Debt:**
  - **must reconcile conflicting objectives.**

- **Internal Debt:**
  - **depends on expendable cash availability; does not increase debt policy limit; maximum % EFIP established.**

Deciding on a Debt Policy Limit

Financial Parameters:

Debt affordability:

- the amount that can be made available to pay interest and repay outstanding debt, both external and internal.
- It is measured via income statement ratios.
- Debt burden ratio selected as measurement ratio (interest + principal/expenditures).
- Upper industry threshold for this ratio is 7%. That is, no more than 7% of total expenditures should be spent on interest payments plus principal repayments.

Deciding on a Debt Policy Limit

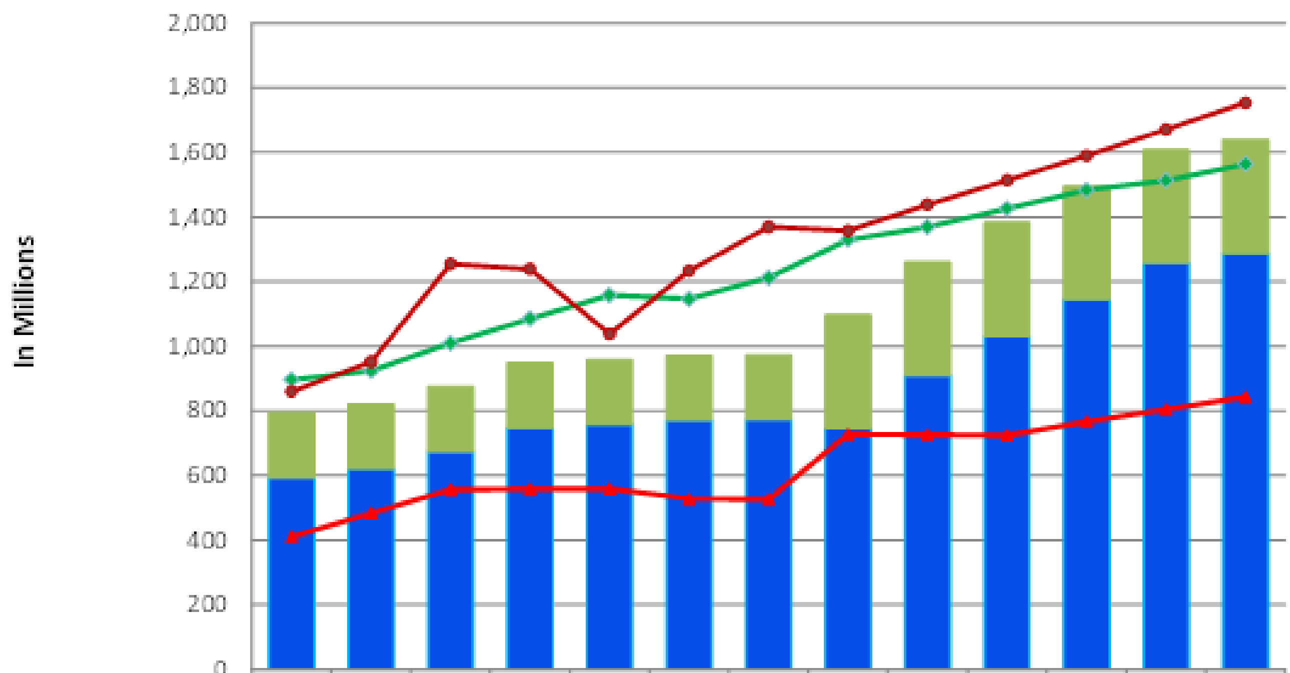
Financial Parameters:

Debt capacity:

- the amount that can be borrowed based on funds on hand that could be used to repay the debt at the balance sheet date.
- It is measured via balance sheet ratios.
- Viability ratio selected as measurement ratio (expendable resources/debt).
- This ratio can be set at less than 1.0. That is, the University does not have to have on hand all the funds necessary to repay the total debt as at the balance sheet date.

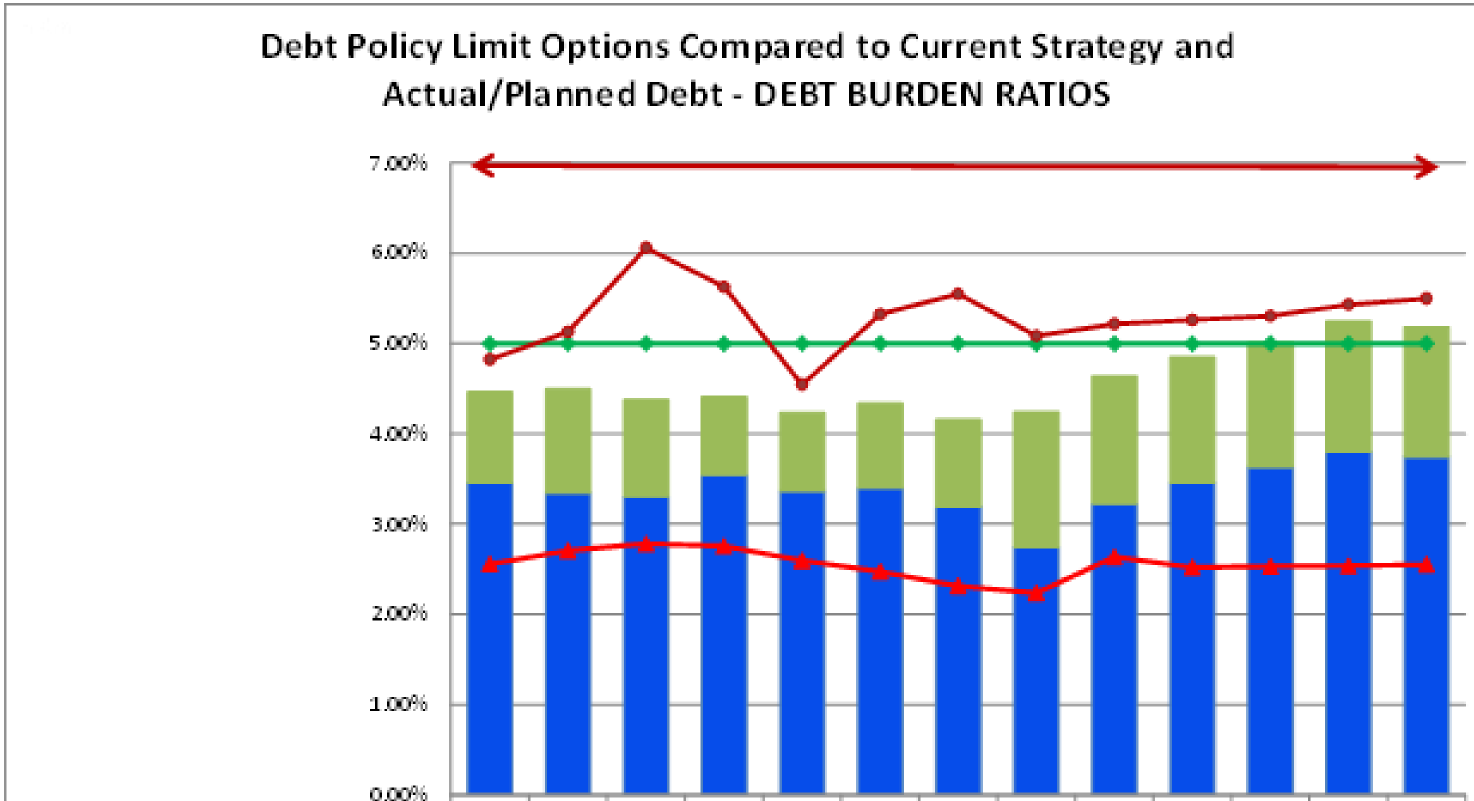
Deciding on a Debt Policy Limit

Debt Policy Limit Options Compared to Current Strategy and Actual/Planned Debt - IN MILLIONS of DOLLARS



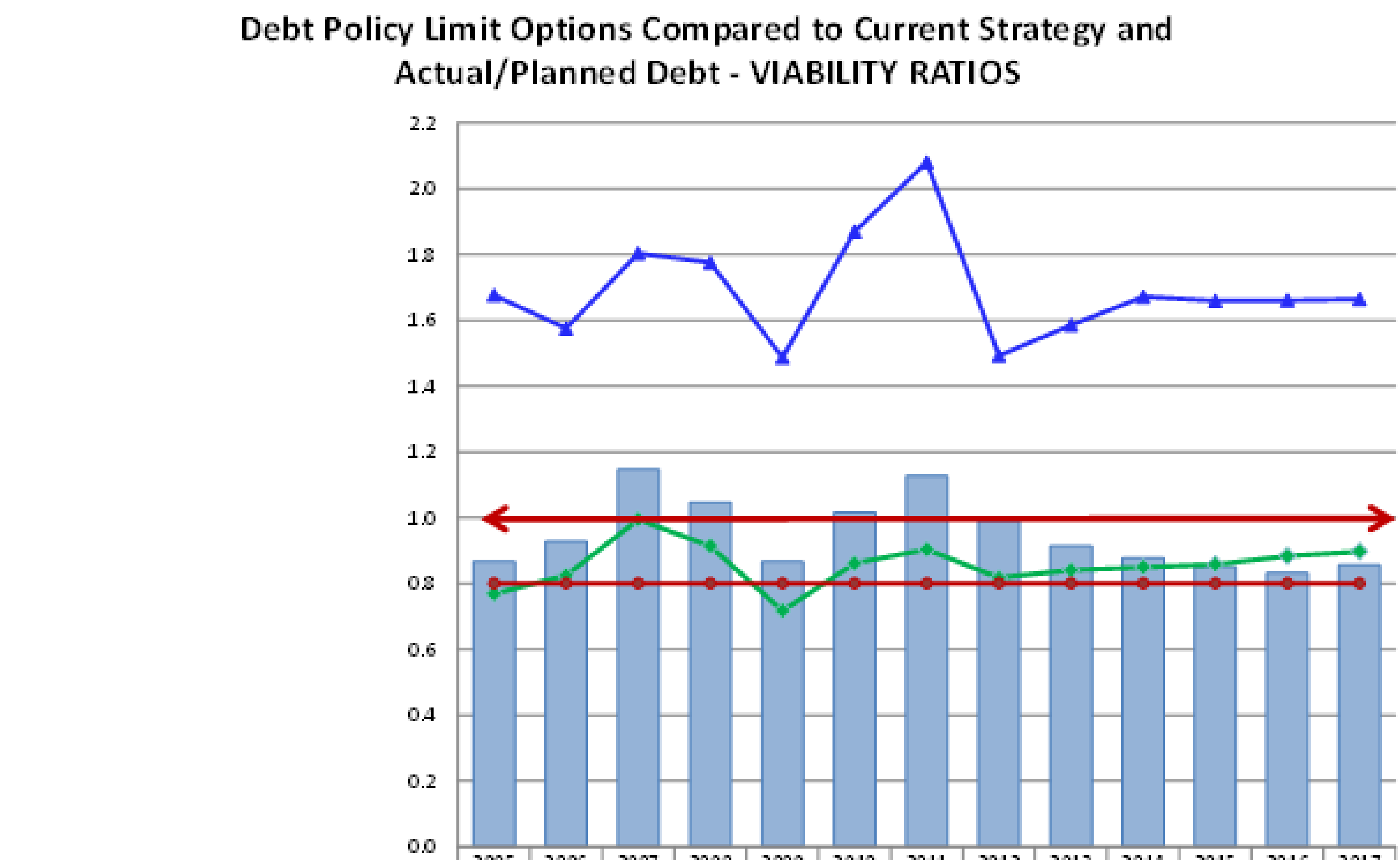
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current Maximum internal Debt	200.0	200.0	200.0	200.0	200.0	200.0	200.0	350.0	350.0	350.0	350.0	350.0	350.0
Current Maximum external Debt	593.9	621.1	675.2	748.0	758.4	771.5	773.1	746.6	910.2	1,031.8	1,145.8	1,258.8	1,289.6
Current Maximum External + Internal Debt	793.9	821.1	875.2	948.0	958.4	971.5	973.1	1,096.6	1,260.2	1,381.8	1,495.8	1,608.8	1,639.6
Actual/ Planned External Debt	410.6	483.7	556.7	558.4	558.9	528.2	526.8	727.7	726.2	724.6	766.9	805.2	843.4
5% Debt Burden Ratio(Int+Ext Debt)	896.4	923.8	1,009.9	1,085.1	1,158.7	1,146.9	1,212.7	1,329.6	1,369.4	1,426.3	1,483.6	1,513.4	1,563.9
0.8 Viability Ratio (Int+Ext Debt)	860.3	952.0	1,255.0	1,239.0	1,038.4	1,234.0	1,369.6	1,357.4	1,438.6	1,513.6	1,590.2	1,670.8	1,753.7

Deciding on a Debt Policy Limit



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Burden Ratio internal loans	1.01%	1.15%	1.08%	0.87%	0.87%	0.94%	0.97%	1.50%	1.42%	1.39%	1.38%	1.45%	1.44%
Debt Burden Ratio external loans	3.46%	3.34%	3.31%	3.54%	3.36%	3.40%	3.19%	2.74%	3.22%	3.46%	3.63%	3.80%	3.75%
Debt Burden Ratio total	4.47%	4.50%	4.38%	4.42%	4.23%	4.34%	4.16%	4.24%	4.64%	4.85%	5.02%	5.25%	5.19%
Actual/Planned External Debt	2.56%	2.71%	2.78%	2.76%	2.60%	2.47%	2.32%	2.24%	2.64%	2.52%	2.53%	2.54%	2.55%
5% Debt Burden Ratio (Int+Ext Debt)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
0.8 Viability Ratio (Int+Ext Debt)	4.82%	5.13%	6.06%	5.63%	4.54%	5.33%	5.55%	5.09%	5.22%	5.26%	5.31%	5.43%	5.50%

Deciding on a Debt Policy Limit



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current Maximum External+Internal Debt	0.87	0.93	1.15	1.05	0.87	1.02	1.13	0.99	0.91	0.88	0.85	0.83	0.86
Actual/Planned External Debt	1.68	1.57	1.80	1.78	1.49	1.87	2.08	1.49	1.58	1.67	1.66	1.66	1.66
5% Debt Burden Ratio (Int+Ext Debt)	0.77	0.82	0.99	0.91	0.72	0.86	0.90	0.82	0.84	0.85	0.86	0.88	0.90
0.8 Viability Ratio	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80

Recommended Debt Policy Limit

- **It is recommended that the 5% debt burden ratio be a key determinant of the annual debt policy limit and that the 0.8 viability ratio be taken into consideration in setting that debt policy limit.**
- **At April 30, 2012, the debt policy limit is $1.33 billion, reflecting a debt burden ratio of 5% and a viability ratio of 0.82.**

Approvals

- Business Board approves:
  - Debt strategy.
  - Capital projects with borrowing.
  - Legal borrowing resolutions that authorize the issuance of external debt.

Monitoring

- Regular reporting to Business Board.
- Comparisons to others.
- Modified debt burden ratio that monitors combined effect of debt strategy and pension contribution strategy.