



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

SPONSOR: Trevor Rodgers, Chief Financial Officer
CONTACT INFO: 416-978-2065, trevor.rodgers@utoronto.ca

PRESENTER: Same as above
CONTACT INFO:

DATE: May 27, 2022 for June 21, 2022

AGENDA ITEM: 8

ITEM IDENTIFICATION:

Debt Policy Limit, Debt Allocations, Outstanding Debt Issued and Status of the Long Term Borrowing Pool to April 30, 2022

JURISDICTIONAL INFORMATION:

Pursuant to Section 5 (1.) (b.) of the Business Board *Terms of Reference*, the Business Board has responsibility for reviewing regular reports on matters affecting the finances of the University and on financial programs and transactions.

GOVERNANCE PATH:

1. Business Board [For Information] (June 21, 2022)

PREVIOUS ACTION TAKEN:

The Business Board approved the current debt strategy on November 5, 2012. The Business Board had approved external debt of \$710 million and an internal debt limit at 40% of the Expendable Funds Investment Pool (“EFIP”). On October 7, 2019, the Business Board approved the University funds investment policy, whereby the allocation from EFIP for internal loans was set at 25% of the EFIP balance at April 30.

HIGHLIGHTS:

This report provides an update on the total debt limit (as per debt policy approved in November 2012) based on the financial results at April 30, 2022. It compares the updated total debt limit to the total debt allocated by the Business Board and the outstanding debt undertaken by the University as at April 30, 2022. It also provides an update on the actual debt burden ratio and viability ratio based on financial results at April 30, 2022 as compared to the policy ratios.

Finally, it provides an update of the status of the long-term borrowing pool (“LTBP”), which is the University’s internal sinking fund that accumulates funds for repayments of debentures issued. A summary of these results is provided in the table below. Appendix I attached is the regular status report on debt to April 30, 2022.

| Summary of Debt at April 30, 2022 | | | | |
|--|--------------|-----------------|-----------------|----------------|
| (in millions of dollars) | | | | |
| | <u>Total</u> | <u>External</u> | <u>Internal</u> | |
| | | | <u>Other</u> | <u>Pension</u> |
| Total debt limit | 2,096.7 | 1,134.0 | 962.7 | |
| Less: actual debt outstanding | 889.4 | 710.0 | 173.2 | 6.2 |
| Less: allocated and pending | <u>777.0</u> | <u>127.3</u> | <u>655.9</u> | <u>-6.2</u> |
| Remaining unallocated | 430.3 | 296.7 | 133.6 | 0.0 |
| Policy debt burden ratio | 5.0% | | | |
| Actual debt burden ratio | 2.6% | 1.7% | 0.5% | 0.4% |
| Viability ratio – debt limit | 1.7 | | | |
| Viability ratio – actual debt (desired higher than 0.8) | 3.9 | | | |

Background

The debt strategy approved by the Business Board on November 5, 2012 included the following elements:

- the total debt limit is calculated based on a 5% debt burden ratio (interest plus principal repayment divided by total expenditures adjusted for depreciation and non-funded pension expense);
- debt includes all long-term external and internal borrowed funds (with fungibility between them) obtained by any means and excludes letters and lines of credit and all short-term and medium term internal financing for purposes such as fund deficits;
- the internal debt component is limited to 40% of the Expendable Funds Investment Pool (“EFIP”), defined as internal debt outstanding divided by audited April 30 EFIP balance plus internal debt outstanding;
- the viability ratio (expendable resources divided by debt) is used as a secondary monitoring ratio, so that if the viability ratio related to the debt policy limit is below 0.8, consideration will be given to moderating the debt policy limit;

- 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;
- borrowing method (e.g. private placement or other method) continues to be determined by the senior officer responsible for financial matters;
- principal and interest repayments related to bullet debenture borrowing will continue to 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 drawdowns will be sufficient to repay the bullet debentures at maturity; and
- borrowing will continue to be 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 repayment terms, and make regular principal and interest payments on these loans.

Update to April 30, 2022 (see appendix II for calculations):

- The debt burden ratio based on actual outstanding debt was 2.6% (\$86.8 million of total interest and principal divided by \$3.3 billion of expenditures), which is 2.4% lower than the policy debt burden ratio of 5%. The viability ratio based on actual debt outstanding was 3.9, which is higher (and therefore better) than the desired lower threshold of 0.8.
- Based on actual expenditures at April 30, 2022, a 5% policy debt burden ratio resulted in a total debt limit of \$2.1 billion. Had the University issued a total of \$2.1 billion in debt at April 30, 2022, the viability ratio would have been 1.7, which is higher (and therefore better) than the desired lower threshold of 0.8.
- Total debt outstanding of \$889.4 million consisted of:
 - \$710 million of external debt (reported as \$709 million in the financial statements after the application of accounting rules which netted unamortized discounts and premium) consisting of debentures series A to E.
 - \$179.4 million of internal debt of which \$6.2 million relates to pensions. During 2022, most of the debt related to pension was paid and the remaining \$6.2 million was paid off in May 2022. As a result, the \$150 million debt allocation for the pension was eliminated.
- The LTBP accumulates funds for repayment of the debentures. At April 30, 2022, the LTBP assets amounted to \$536.5 million, consisting of principal repayments of \$433.2 million and \$103.3 million of internally restricted net assets. Internally restricted net assets mainly represent the difference between cumulative investment earnings from LTBP (including interest collected from internal loans) and cumulative interest payments made to bond holders. The income statement and balance sheet for the LTBP are attached as appendix III.

The University's credit ratings are Aa1 stable (Moody's Investors Service), AA+ stable (S & P Global) and AA stable (DBRS Morningstar), which ranks the University as a strong investment-grade credit, with all credit rating agencies rating the University above the Province of Ontario.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

-

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

Appendix I – Status Report on Debt to April 30, 2022

Appendix II – Debt Burden and Viability Ratios

Appendix III – Long-Term Borrowing Pool Financial Statements

University of Toronto
Status Report on Debt to April 30, 2022

| Financial Ratios in accordance with Policy | Total | External Component | Internal Component | |
|---|--------------|---------------------------|---------------------------|---------------------|
| | | | Other Debt | Pension Debt |
| Debt burden ratios: | | | | |
| Debt policy limit at April 30, 2022 | 5.0% | | | |
| Actual debt outstanding at April 30, 2022 | 2.6% | 1.7% | 0.5% | 0.4% |
| Viability ratios: | | | | |
| Debt policy limit at April 30, 2022 | 1.7 | | | |
| Actual debt outstanding at April 30, 2022 | 3.9 | 4.9 | 20.1 | 560.4 |

| Debt Policy Limit April 30, 2022 | Total in Millions | External Component | Internal Component | |
|---|--------------------------|---------------------------|---------------------------|---------------------|
| | | | Other Debt | Pension Debt |
| Debt Policy Limit | 2,096.7 | 1,134.0 | 962.7 | - |

| Allocations | Total in Millions | External Component | Internal Component | |
|---|--------------------------|---------------------------|---------------------------|---------------------|
| | | | Other Debt | Pension Debt |
| Opening balance at March 31, 2022 | 1,707.3 | 817.2 | 740.1 | 150.0 |
| Approved by Business Board on April 26, 2022 | 130.1 | 127.3 | 2.8 | - |
| Change of allocation on previously approved projects | (0.2) | | (0.2) | |
| Repayment of EFIP debt that can be reallocated | (20.8) | | (20.8) | |
| Reallocation due to increase of internal debt limit | - | (107.2) | 107.2 | |
| Decrease due to to elimination of allocation to Pension | (150.0) | - | - | (150.0) |
| Closing balance at April 30, 2022 | 1,666.4 | 837.3 | 829.1 | - |
| Unallocated | 430.3 | 296.7 | 133.6 | - |

| Actual Debt Outstanding | Total in Millions | External Component | Internal Component | |
|-----------------------------------|--------------------------|---------------------------|---------------------------|---------------------|
| | | | Other Debt | Pension Debt |
| Opening balance at March 31, 2022 | | | | |
| Debentures due 2031 to 2051 | 710.0 | 710.0 | | |
| Internal debt | 267.9 | - | 180.2 | 87.7 |
| | 977.9 | 710.0 | 180.2 | 87.7 |
| Changes | (88.5) | - | (7.0) | (81.5) |
| Closing balance at April 30, 2022 | 889.4 | 710.0 | 173.2 | 6.2 |

Definitions:

Debt includes all long-term external and internal borrowed funds obtained by any means (e.g. debentures, bank loans) and excludes letters and lines of credit and all short-term and medium term internal financing for purposes such as construction financing and fund deficits.

Debt burden ratio, key determinant of debt policy limit, equals interest plus principal divided by total expenditures.

Debt policy limit is the maximum debt that can be taken on based on a debt burden ratio of 5%.

Viability ratio, to be taken into consideration in setting debt policy limit, equals expendable resources divided by debt. The debt strategy has set a preference of a viability ratio of 0.8 or greater.

Allocations include borrowing approved by Business Board, plus contingency for donations targets and pledges.

Actual debt outstanding is the sum of internal loans issued from internal debt plus actual external debt issuance.

Debt Burden Ratio Fiscal 2022

| | | | | | |
|---|---|----------------------|------------------|----------------|----------------|
| Debt Burden | = | Principal + Interest | | | |
| | | Total Expenditures | | | |
| | | (in Millions) | | | |
| | | External Debt | Internal Pension | Internal other | Ext + Int Debt |
| Principal Payment | | 19.1 | 6.6 | 8.8 | 34.5 |
| Interest Payment | | 38.1 | 5.3 | 8.9 | 52.3 |
| Total Principal & Interest (fiscal 2022) | | 57.2 | 11.9 | 17.7 | 86.8 |
| Total Expenses (fiscal 2022) | | 3,416.1 | 3,416.1 | 3,416.1 | 3,416.1 |
| Less amortization of capital assets | | (212.7) | (212.7) | (212.7) | (212.7) |
| Plus Principal payments | | 19.1 | 6.6 | 8.8 | 34.5 |
| Pension and other employee future benefits funding in excess of expense | | 82.9 | 82.9 | 82.9 | 82.9 |
| Total Expenditures (fiscal 2022) | | 3,305.4 | 3,292.9 | 3,295.1 | 3,320.8 |
| Debt Burden Ratios: | | 1.7% | 0.4% | 0.5% | 2.6% |

Viability Ratio at April 30, 2022

| | | | | | |
|--|---|---------------------------------------|------------------|----------------|----------------|
| Viability Ratio | = | Expendable resources (see list below) | | | |
| | | Debt | | | |
| | | (in Millions) | | | |
| | | External Debt | Internal Pension | Internal Other | Ext + Int Debt |
| Expendable resources | | | | | |
| Deficit | | (314.1) | (314.1) | (314.1) | (314.1) |
| Internally restricted endowments | | 448.6 | 448.6 | 448.6 | 448.6 |
| Deferred Contributions | | 1,032.2 | 1,032.2 | 1,032.2 | 1,032.2 |
| Internally restricted cash reserves | | | | | |
| Capital projects and infrastructure reserves | | 1,555.0 | 1,555.0 | 1,555.0 | 1,555.0 |
| Operating contingency reserves | | 284.0 | 284.0 | 284.0 | 284.0 |
| Research support | | 282.0 | 282.0 | 282.0 | 282.0 |
| Student assistance | | 63.0 | 63.0 | 63.0 | 63.0 |
| Pension plan reserve | | - | - | - | - |
| Departmental trust funds | | 97.0 | 97.0 | 97.0 | 97.0 |
| Other funds | | 33.0 | 33.0 | 33.0 | 33.0 |
| Internal loan for Pension Funding | | (6.2) | (6.2) | (6.2) | (6.2) |
| Total expendable resources at April 30, 2022 | | 3,474.5 | 3,474.5 | 3,474.5 | 3,474.5 |
| Total Debt at April 30, 2022 | | 710.0 | 6.2 | 173.2 | 889.4 |
| Viability Ratios | | 4.9 | 560.4 | 20.1 | 3.9 |

Maximum Debt Policy Limit at 5% Debt Burden Ratio (April 30, 2022)

| Debt Burden | = | Principal + Interest Total Expenditures | (in Millions) |
|--|---|---|--------------------|
| Total Expenses | | | 3,416.1 |
| Less Amortization of capital assets | | | (212.7) |
| Plus Principal payments | | | 34.5 |
| Pension and Other Employee Future Benefits funding in excess of expenses | | | 82.9 |
| Total Expenditures | | | <u>3,320.8</u> (a) |
| Debt Burden Ratio of | | | 5.0% (b) |
| Represents total Principal and Interest at 5% debt burden | | | 166.0 (a) x (b) |
| Less 12 months of principal + Interest on actual outstanding debt of \$883.2 million | | | (73.9) |
| Additional Principal + Interest that UofT can afford | | | <u>92.1</u> |
| Cost of additional internal debt of \$789.5 million (maximum of 25% of EFIP at April 30, 2022 which was \$962.7 million) at interest rate of 5.5%: | | | 58.2 |
| Cost of additional external debt that UofT can afford assuming that it will be borrowed at an interest rate of 5.5%* with equal principal payments over 40 years: | | | |
| | | Principal + Interest = | |
| | | $\left(\frac{\text{Debt}}{40 \text{ years}} \right) + \left(\text{Debt} \times 5.5\% \right) =$ | 33.9 |
| | | | <u>92.1</u> |
| Summary: | | | |
| Additional internal debt that UofT can afford | | | 789.5 |
| Additional external debt that UofT can afford | | | 424.0 |
| | | | <u>1,213.5</u> |
| Plus actual outstanding internal debt | | | 173.2 |
| Plus actual outstanding external debt | | | 710.0 |
| Maximum debt that UofT can borrow at 5% debt burden ratio | | | <u>2,096.7</u> |

Sensitivity Analysis:

If the borrowing rate is increased to 6%, the debt limit would be reduced by \$58.6 million

*The 5.5% interest rate includes a margin for future interest rate increases. Ottawa, York and Queen's issued debentures of \$300 million, \$100 million and \$125 million for 2.635%, 3.394% and 2.889% in February, March and April 2020. More recently, Ryerson issued a debenture of \$250 million for 3.542% in April 2021, and McMaster and Carlton issued debentures of \$125 million and \$220 million for 3.405% and 3.264% in June 2021.

Long Term Borrowing Pool (LTBP)
For the year ended April 30

Income Statement
(in millions)

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Net investment income on LTBP investments | 7.4 | 99.7 |
| Interest income from internal loans | 17.0 | 18.7 |
| Fees and amortization of issue costs | (0.3) | (0.3) |
| Interest payments to bond holders | <u>(38.0)</u> | <u>(38.0)</u> |
| Change in internally restricted net assets | (13.9) | 80.1 |
| Internally restricted net assets, opening balance | <u>117.2</u> | <u>37.1</u> |
| Internally restricted net assets, closing balance | <u><u>103.3</u></u> | <u><u>117.2</u></u> |

Balance Sheet
(in millions)

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Assets | | |
| LTBP investments ¹ | 535.6 | 520.0 |
| Unamortized issue costs and premium (prepaid expenses) | <u>0.9</u> | <u>0.9</u> |
| | <u><u>536.5</u></u> | <u><u>520.9</u></u> |
| Liabilities | | |
| Principal collected to date and payable to bondholders on various maturity dates | 433.2 | 403.7 |
| Net assets | | |
| Internally restricted net assets | <u>103.3</u> | <u>117.2</u> |
| | <u><u>536.5</u></u> | <u><u>520.9</u></u> |

¹ LTBP investments, which are mainly offset by accumulated amortization of capital assets financed by the debentures, are reported in UofT's financial statements as follows:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|---------------------|---------------------|
| Investments (LTCAP) | 522.3 | 507.1 |
| Short-term investments (EFIP) | <u>13.3</u> | <u>12.9</u> |
| | <u><u>535.6</u></u> | <u><u>520.0</u></u> |