FOR INFORMATION **PUBLIC** **OPEN SESSION**

TO: Business Board

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DATE: June 10, 2025 for June 17, 2025

AGENDA ITEM: 5

ITEM IDENTIFICATION:

Annual Debt Limit Update and Status of the Long-Term Borrowing Pool as at April 30, 2025.

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 17, 2025)**

PREVIOUS ACTION TAKEN:

On October 7, 2019, the Business Board approved the University funds investment policy, which included an allocation of up to 25% of the University's expendable working capital at April 30 each year to be used for internal loans.

The Business Board approved an amended debt policy on April 26, 2023. The University's debt policy was revised to include indirect debt exposure from joint venture partnerships and to increase the upper threshold debt burden ratio from 5% to 6%. In the same meeting, the Business Board approved an initial allocation of $30.8 million of borrowing room to address indirect debt exposure arising from existing joint venture partnerships.

HIGHLIGHTS:

This report provides an update on the total debt limit (as per debt policy approved in April 2023) based on the financial results at April 30, 2025. 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, 2025. It also provides an update on the actual debt burden ratio and viability ratio based on financial results at April 30, 2025 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 in which funds are accumulated for repayment 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, 2025.

Summary of Debt at April 30, 2025
(in millions of dollars)

	Total Debt	External Direct Debt	External Indirect Debt	Internal Debt
Total debt limit	3,132.4	1,954.4		1,178.0
Less: actual debt outstanding	1,193.0	734.4		458.6
Less: allocated and pending	813.9	88.6	52.2	673.1
Remaining unallocated	**1,125.5**	**1,079.2**		**46.3**
Policy debt burden ratio (maximum)	6.0%			
Actual debt burden ratio	2.3%	1.4%		0.9%
All approved debt incl projects in progress	3.7%	1.5%		2.2%
Policy viability ratio (lower threshold)	0.8			
Viability ratio – actual debt	5.8			
All approved debt incl projects in progress	4.9			
Viability ratio at maximum debt limit	2.2			

<u>Background</u>

The current debt strategy approved by the Business Board on April 26, 2023 includes the following elements:

- the total debt limit is calculated based on a 6% debt burden ratio (interest plus principal repayment divided by total expenditures adjusted for depreciation and non-funded pension expense);
- the definition of debt includes indirect debt exposure from existing and future joint venture partnerships;
- debt includes all long-term external direct and indirect debt 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;
- even though the internal debt component is limited by debt policy to a maximum of 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 allocation of internal debt is currently maintained at 25% of EFIP;
- the viability ratio applies to external debt only (expendable resources divided by external direct and indirect debt) and 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;
- the accumulated sinking fund balance is not taken into consideration when reporting on the outstanding debt balance and therefore does not result in an increase in the university's borrowing capacity; 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, 2025 (see appendix II for calculations):

- The debt burden ratio based on actual outstanding debt was 2.3% ($95.9 million of total interest and principal divided by $4.1 billion of expenditures), which is lower than the policy debt burden ratio of 6%.
- The Business Board has approved total additional borrowing of up to $814 million for capital projects in progress. If we assume that all approved debt allocations (including projects in progress) is issued and outstanding, total debt would be $2.0 billion and the debt burden ratio would increase to 3.7%, still below the policy maximum of 6.0%.
- The viability ratio based on actual debt outstanding was 5.8, which is higher (and therefore better) than the desired lower threshold of 0.8. If we assume that all approved debt allocations (including projects in progress) is issued and outstanding, total external debt would be $875.2 million, and the viability ratio would be 4.9, still well above the minimum threshold of 0.8.
- Based on actual expenditures at April 30, 2025, a 6% policy debt burden ratio resulted in a total debt limit of $3.13 billion of which $1.95 billion allocated to external debt. Had the University issued a total of $1.96 billion in external debt at April 30, 2025, the viability ratio would have been 2.2, which is higher (and therefore better) than the desired lower threshold of 0.8.
- Total debt outstanding of $1,193 million at April 30, 2025 consisted of:
    - $734.4 million of external debt consisting of:
        - $710 million in debentures series A to E (reported as $709 million in the financial statements after the application of accounting rules which netted unamortized discounts and premium); and
        - $24.4 million of the Project Leap debt that has been drawn to date.
    - $458.6 million of internal debt.
- The LTBP accumulates funds for repayment of the debentures. At April 30, 2025, the LTBP assets amounted to $717.7 million, consisting of principal repayments of $543.3 million and $174.4 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) and AA+ stable (S&P Global Rating), 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:

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RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- Appendix I – Status Report on Debt to April 30, 2025
- 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, 2025

Financial Ratios in accordance with Policy	**Total**	External Direct Debt	External Indirect Debt	Internal Debt
Debt burden ratios:				
Debt policy limit at April 30, 2025	**6.0%**			
Actual debt outstanding at April 30, 2025	**2.3%**	1.4%	-	0.9%
All approved debt including projects in progress	**3.7%**	1.5%	-	2.2%
Viability ratios:				
Debt policy limit at April 30, 2025	**2.2**			
Actual debt outstanding at April 30, 2025	**5.8**	5.8	-	-
All approved debt including projects in progress	**4.9**	4.9	-	-

Debt Policy Limit April 30, 2025	**Total in Millions**	External Direct Debt	External Indirect Debt	Internal Debt
Debt Policy Limit	**3,132.4**	1,954.4		1,178.0

Allocations	**Total in Millions**	External Direct Debt	External Indirect Debt	Internal Debt
Opening balance at March 31, 2025	**2,016.0**	840.8	32.2	1,143.0
Approved by Ad Hoc Committee on April 9, 2025	**36.3**	-	20.0	16.3
Change of allocation on previously approved projects	**(1.9)**	-	-	(1.9)
Reallocation due to increase of internal debt limit	**-**	(17.8)		17.8
Repayment of EFIP debt that can be reallocated	**(43.5)**	-	-	(43.5)
Closing balance at April 30, 2025	**2,006.9**	823.0	52.2	1,131.7
Unallocated	**1,125.5**	1,079.2		46.3

Actual Debt Outstanding	**Total in Millions**	External Direct Debt	External Indirect Debt	Internal Debt
Opening balance at March 31, 2025				
Debentures due 2031 to 2051	**710.0**	710.0		
External Debt (LEAP)	**18.6**	18.6		
Internal debt	**452.4**	-	-	452.4
	1,181.0	728.6	-	452.4
Changes	**12.0**	5.8	-	6.2
Closing balance at April 30, 2025	**1,193.0**	734.4	-	458.6

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.

Indirect Debt includes off-balance sheet debt such as long-term debt obtained through a limited partnership arrangement that is not recorded in the University's balance sheet, but exposes the University to a potential financial liability

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 6%.

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

Allocations are all borrowings approved by Business Board, including indirect debt plus contingency for donations pledges.

Actual debt outstanding is the sum of actual internal loans issued, actual external debt issuance and indirect debt

Maximum Debt Policy Limit at 6% Debt Burden Ratio (April 30, 2025)

$$\text{Debt Burden} = \frac{\text{Principal + Interest}}{\text{Total Expenditures}}$$

	(in Millions)	
Total Expenses	4,356.0	
Less Amortization of capital assets	(262.0)	
Plus Principal payments	33.1	
Pension and Other Employee Future Benefits funding in excess/(short) of expenses*	(24.6)	
Total Expenditures	4,102.5	(a)
* Funding is less than the pension expenses.		
Debt Burden Ratio of	**6.0%**	(b)
Represents total Principal and Interest at 6% debt burden	246.1	(a) x (b)
Less 12 months of principal + Interest on actual outstanding debt of $1193.0 million	(95.5)	
Additional Principal + Interest that UofT can afford	150.6	
Cost of **additional internal debt** of $719.4 million (maximum of 25% of EFIP at April 30, 2025 which was $1,178.0 million) at interest rate of 5.5%:	53.0	

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 =

$$\left(\frac{\text{Debt}}{\text{40 years}}\right) + \left(\text{Debt x 5.5\%}\right) = 97.6$$

150.6

Summary:

Additional internal debt that UofT can afford	719.4
Additional external debt that UofT can afford	1,220.0
	1,939.4
Plus actual outstanding internal debt	458.6
Plus actual outstanding external debt	734.4
Maximum debt that UofT can borrow at 6% debt burden ratio	3,132.4

Sensitivity Analysis:

If the borrowing rate is increased to 6.0%, the debt limit would be reduced by $102.4 million

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

Income Statement
(in millions)

	2025	2024
Net investment income on LTBP investments	56.7	65.4
Interest income from internal loans	11.2	13.4
Fees and amortization of issue costs	(0.3)	(0.2)
Interest payments to bond holders	(38.0)	(38.0)
Change in internally restricted net assets	29.8	40.6
Internally restricted net assets, opening balance	144.6	104.0
Internally restricted net assets, closing balance	174.4	144.6

Balance Sheet
(in millions)

	2025	2024
Assets		
LTBP investments[1]	717.1	642.9
Unamortized issue costs and premium (prepaid expenses)	0.6	0.7
	717.7	643.6
Liabilities		
Principal collected to date and payable to bondholders on various maturity dates	543.3	499.0
Net assets		
Internally restricted net assets	174.4	144.6
	717.7	643.6

	2025	2024
[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:		
Investments (LTCAP)	682.7	618.1
Short-term investments (EFIP)	34.4	24.8
	717.1	642.9