



FOR INFORMATION

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OPEN SESSION

TO: Business Board

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DATE: January 21, 2026, for January 28, 2026

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Debt Strategy: Annual Review

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] (January 28, 2026)

PREVIOUS ACTION TAKEN:

The borrowing strategy was initially approved by Governing Council in June 2004. A revision of this debt strategy was approved in November 2012 followed by an amendment in April 2023. The latest annual review was presented on January 29, 2025.

HIGHLIGHTS:

The debt strategy approved by Business Board in November 2012 established a single debt policy limit including both internal and external debt, with fungibility between them. The debt policy limit amendment in April 2023 revised the maximum debt burden ratio (debt service cost divided by total expenditures) to 6% and introduced the recognition of indirect debt exposure into the debt limit. The 0.8 viability ratio (total expendable resources divided by total debt) taken into consideration in setting that debt policy limit

remains unchanged. The purpose of this report is to assess the continued prudence and effectiveness of this debt strategy.

At April 30, 2025, the maximum 6% debt burden ratio resulted in a total debt policy limit of \$3,132.4 million. The associated viability ratio with this debt policy limit was 2.2, which is higher (better) than the minimum threshold of 0.8. Of the \$3,132.4 million, \$1,178.0 million is set to be issued from internal sources with the remaining \$1,954.4 million to be obtained from external debt which includes indirect debt exposure of \$52.2 million. We have assessed the financial health of the allocated projects funded via external partnerships and are not recommending any changes to the indirect debt provision at this time.

Actual outstanding debt at December 31, 2025 was \$1,205.1 million, of which \$438.6 million was internal and \$766.5 million was external. At December 31, 2025, \$2,002.8 million of borrowing room has been allocated to capital projects and other requirements that have been reviewed by the Business Board, leaving \$1,129.6 million (\$3,132.4 million less \$2,002.8 million) for future debt to finance projects under active consideration but not yet brought forward to the Business Board for approval.

Future capital projects under consideration are projected to require approximately \$1,387 million of borrowing room which would include potential debt allocations for Four Corners projects such as the Build More Housing Initiative and SRIC Phase 2 as well as major academic projects such as the redevelopment of the west wing of the Medical Sciences Building. The future borrowing requirement of \$1,387 million is \$257.4 million above what is currently available for allocation in 2025-26 but falls within the projected debt capacity available over the next five years. Timing, cost, and funding of outer year projects are reviewed and updated annually. If every project comes forward for approval as planned, total allocations will reach approximately \$3.3 billion. Based on planned growth in the University's financial resources, the maximum debt policy limit, determined using a 6% debt burden ratio, is projected to grow by an additional \$408 million to \$3,540 million over the next five years to April 30, 2031, sufficient to meet the projected borrowing needs.

Our analysis based on the current estimated timing of all these capital projects shows that the debt policy limit would deliver enough debt to support the University's capital needs. Based on modest expense projection and the current capital plan, the projected debt burden ratios (currently at 2.4%) would increase to 4.1%, below the 6% policy limit. In addition, the viability ratio is expected to be better than the threshold of 0.8 for all the years being forecasted.

The mix of internal and external debt will be determined based on timing and availability of internal funds. While the debt policy delivers enough capacity to support the University's projected capital needs overall, there may be a need to increase the proportion of EFIP allocated to internal debt from 25% up to a maximum allowable limit of 40% and/or seek additional external debt to fund some future projects. This will be reviewed as we get closer to reaching the current EFIP limit.

The current report assumes a 5.5% cost of borrowing for future debt which is a decrease from the 6% cost of borrowing assumed in past reports. The lower rate is justified by the University's historically stable creditworthiness and prudent financial management. The 5.5% assumption is 50 bps higher than recent comparable debt issuances by peer universities, building in a margin for future rate increases. If future borrowing costs are in the range of 4.5% to 6.5%, the debt limit will reach \$3,361 million to \$3,770 million by 2031. This assumes modest expense budget growth per the long-range plan. For each \$10 million reduction in total expenditures, the debt policy limit would decline by \$8 million on average annually over the next 5-year period.

To assess the prudence of the debt policy, the University benchmarks actual and planned external debt and key financial ratios to those of the MCURES Financial Accountability Framework and to selected Canadian peer universities. Based on the planned debt, the MCURES key debt ratios are projected over the next 5 years to remain comfortably in the low-risk "green" zone. Compared to selected Canadian universities at April 2025, UofT had lower debt service costs and higher expendable resource ratios than most of its peers.

The current debt strategy has been in place for over ten years. Based on the analyses conducted as part of this annual review, provided interest rates remain relatively stable and provided the university grows as expected, the strategy will deliver sufficient debt capacity to meet the borrowing needs for the highest priority capital projects that are currently under active consideration.

Ongoing uncertainty surrounding international student enrollment, inflation in the construction market and a volatile interest rate environment could put pressure on available borrowing capacity in the outer years of the plan. Should these market factors change materially in future years, outer year capital plans will be reviewed and updated by the President and Provost to ensure that the University continues to be in a financially healthy position. By maintaining a flexible multi-year capital plan, the university can proactively adjust project priorities and timing in response to evolving conditions, safeguarding compliance with debt policy limits and sustaining strong financial and debt metrics.

Long-Term Borrowing Pool and the Sinking Fund

In the early 2000's, the University issued \$710 million in debentures over five phases to create the Long-Term Borrowing Pool (LTBP). The first debenture matures in 2031 and the others mature between 2043 and 2051. The LTBP pool of funds was then used to fund internal long-term mortgages for capital projects (primarily residences) and other priorities during the rapid expansion underway at that time. The lead divisions for those projects provide annual debt service payments to Finance which uses the interest component to fund the debenture coupon payments and directs the principal funds to a voluntary Sinking Fund that will be used to repay the debentures at maturity. The Sinking Fund is invested in LTCAP and the investment returns are used to fund the coupon payments for that portion of the debentures. Any investment returns in excess of the

coupon payments are reinvested into a contingency reserve in the sinking fund which will be used in years when investment returns are lower than the coupon rates.

As of April 30, 2025, the Sinking Fund held \$543 million in principal repayments plus an additional \$174 million reserve from accumulated investment income for a total of \$717 million. Over time, as principal repayments are received, the value of the principal portion of the sinking fund will grow to match the total of the debentures so, at maturity, any residual funding in the contingency reserve will not be needed and will be available for other priorities. The University annually reviews the funded status of the Sinking Fund including investment return sensitivity analyses. Given the strong performance of LTCAP in recent years, the Sinking Fund is in a surplus position with excess contingency reserves. As a result, the University is planning to draw down a small portion of this liquidity for other institutional priorities.

FINANCIAL IMPLICATIONS:

None

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- Debt Strategy Review as at January 28, 2026 (Powerpoint presentation).