

# Annual Debt Strategy Review 2025-26

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January 28, 2026

University of Toronto Financial Services



# Agenda

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**Baseline: Current Debt and Approved Allocations**

2

**Capital Plans and Future Borrowing Needs**

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**Forecast: Financial Impact Assessment**

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# Baseline: Current Debt and Approved Allocations

# Debt Policy Summary

## Policy Limits

- Debt limit based on affordability, determined by a debt burden ratio of 6% of the University's consolidated expenses
- Limit can be moderated when necessary to reflect overall debt exposure based on a viability ratio of 0.8
- No more than 40% of expendable funds can be used for internal borrowing; current plan assumes no more than 25% of EFIP used for this purpose

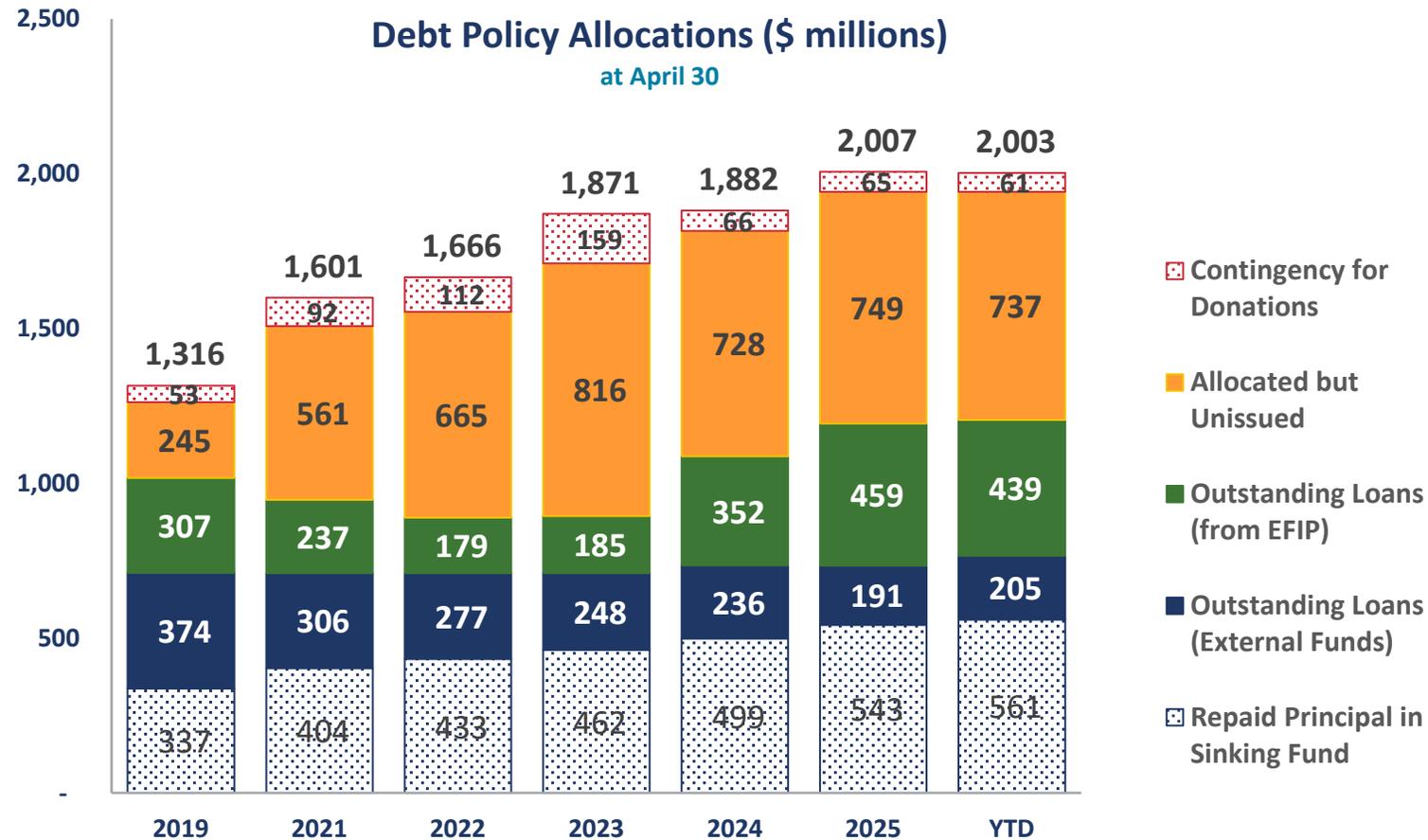
## What is included?

- Direct external debt (funds borrowed from third party lenders, on balance sheet as long-term liabilities)
- Direct internal debt (funds borrowed from the Expendable Funds Investment Pool, on balance sheet as deficit in net assets)
- Indirect debt exposure through partnerships or joint venture arrangements (not on balance sheet, but potential for financial or reputational liability)
- Provision for donation targets, pledges, and capital grants not yet in hand
- Capital leases (currently nil)

## What is excluded?

- Short-term construction financing arrangements using internal funds
- Short-term and medium-term fund deficits where there are approved plans to address shortfalls (e.g. in multi-year operating or ancillary budget plans)
- Balance in the voluntary sinking fund is not netted against outstanding debt and does not increase amount available for borrowing
- Long-term operating leases

# Debt Allocations - History



- At April 30, 2025, the debt limit was set at \$3,132 million based on a maximum 6% debt burden ratio.
- As of December 31, 2025, Business Board has approved \$2 billion of debt allocations from this limit.
- Actual debt outstanding is \$1,205 million, equivalent to a debt burden ratio of 2.4%.
- The associated viability ratio is 5.6x, which is above the minimum requirement of 0.8x.
- Both ratios indicate that the University's debt burden is prudently managed with a financially healthy position.

# 2

## Capital Plans and Future Borrowing Needs

# Capital investments over the next 5 years



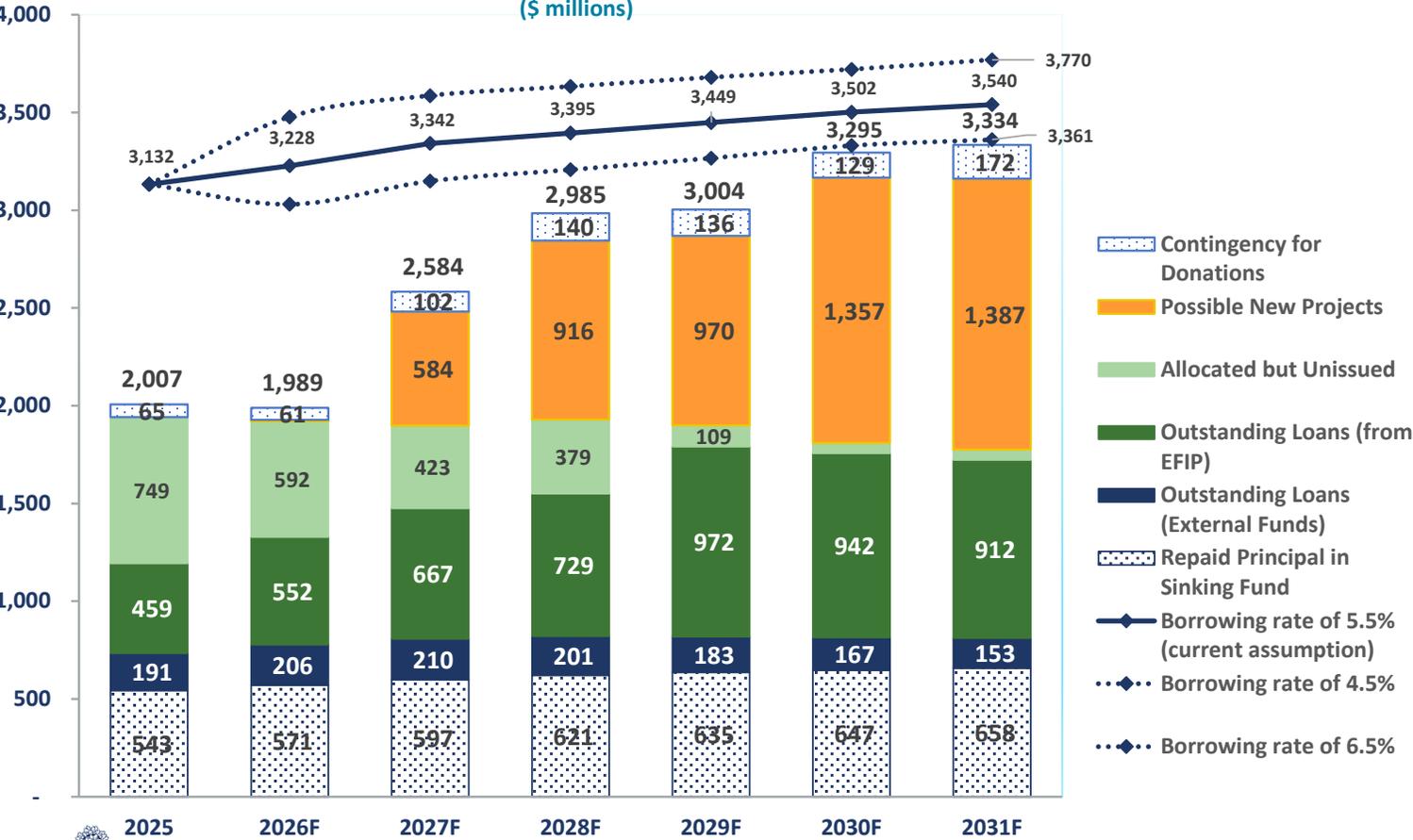
- 15% | Cash Reserves
- 30% | Future Cash Contributions
- 30% | Donations, Gov't, Partnerships
- 25% | Debt

Source: Planning and Budget (estimates as of January 2026)

- The University’s debt strategy primarily supports its capital expansion program. In assessing the appropriateness of a debt strategy, we consider the need for debt together with the need to remain affordable, and for debt servicing to continue to be financially responsible and prudent.
- Evolving market factors such as pressures on international enrollment, inflation on construction costs and the volatile interest rate environment will require future capital priorities and timelines to be regularly reviewed.

# Policy Limit vs Borrowing Needs

Debt Allocations vs Policy Limit  
with Interest Rate Sensitivity (4.5-6.5%)  
(\$ millions)



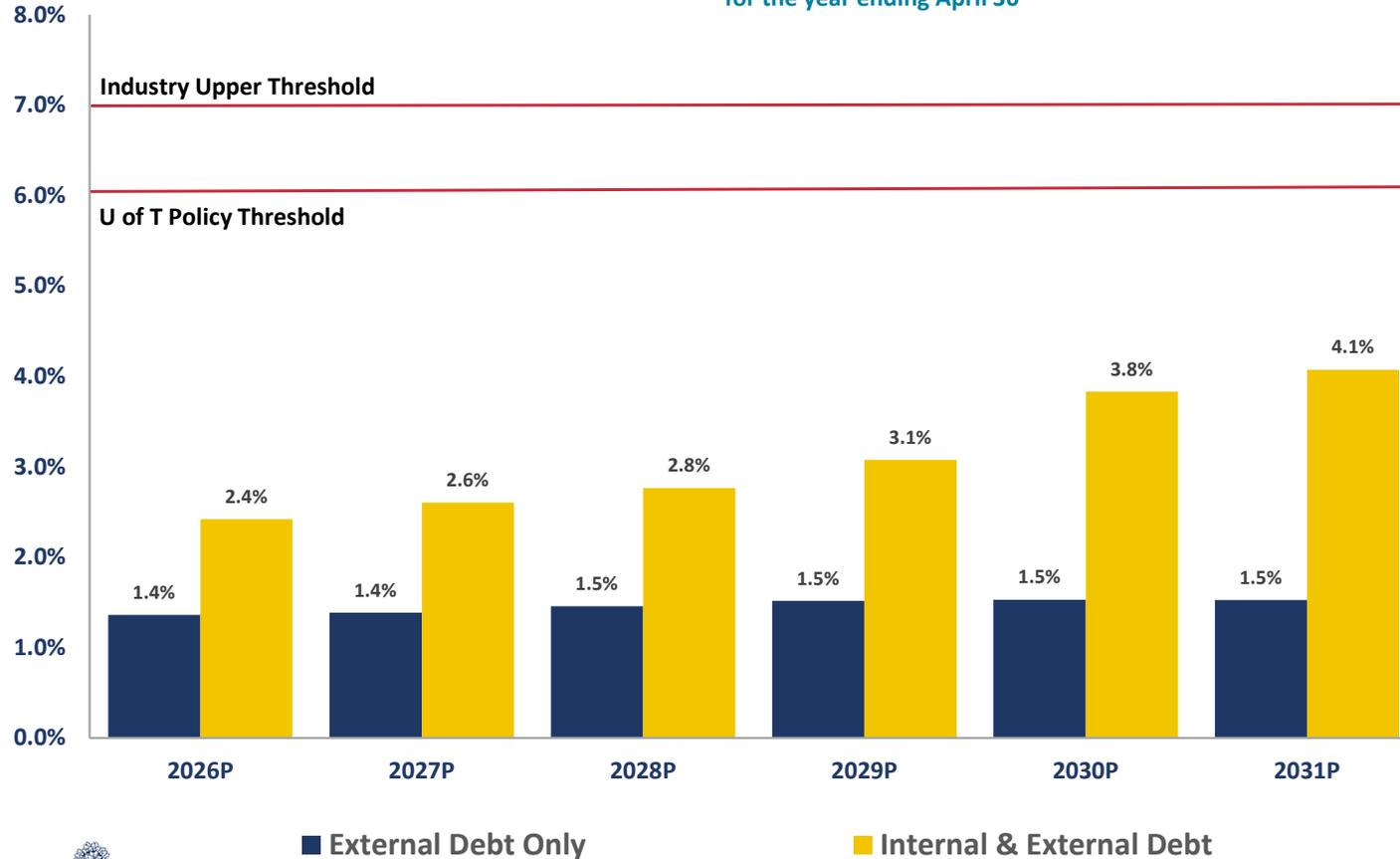
- Maximum debt burden is assumed to grow from \$3,132 million to \$3,540 million by 2031, based on modest expense growth per the long-range plan.
- The debt policy is expected to deliver enough capacity to support the University’s new capital project needs over the next five years of up to \$1,387 million.
- A sensitivity analysis shows the 2031 debt limit would be in the range of \$3,361 million to \$3,770 million based on borrowing costs between 4.5% and 6.5%. For each \$10M reduction in total expenditures, the debt policy limit would decline by approximately \$8M.
- Capital priorities and timelines are regularly updated and reviewed to ensure compliance with debt policy limits
- While the debt policy delivers enough capacity to support the University’s capital needs over the next five years, we will likely reach the current limit of the proportion of EFIP allocated to internal borrowing. This will require a review of the limit and/or to seek new external debt.
- Given the large surplus in the Sinking Fund net asset balance, the University is planning to draw down a small portion of this liquidity for other institutional priorities.

**3**

**Assessing  
Financial Impact**

# Debt Affordability – Income Statement Approach

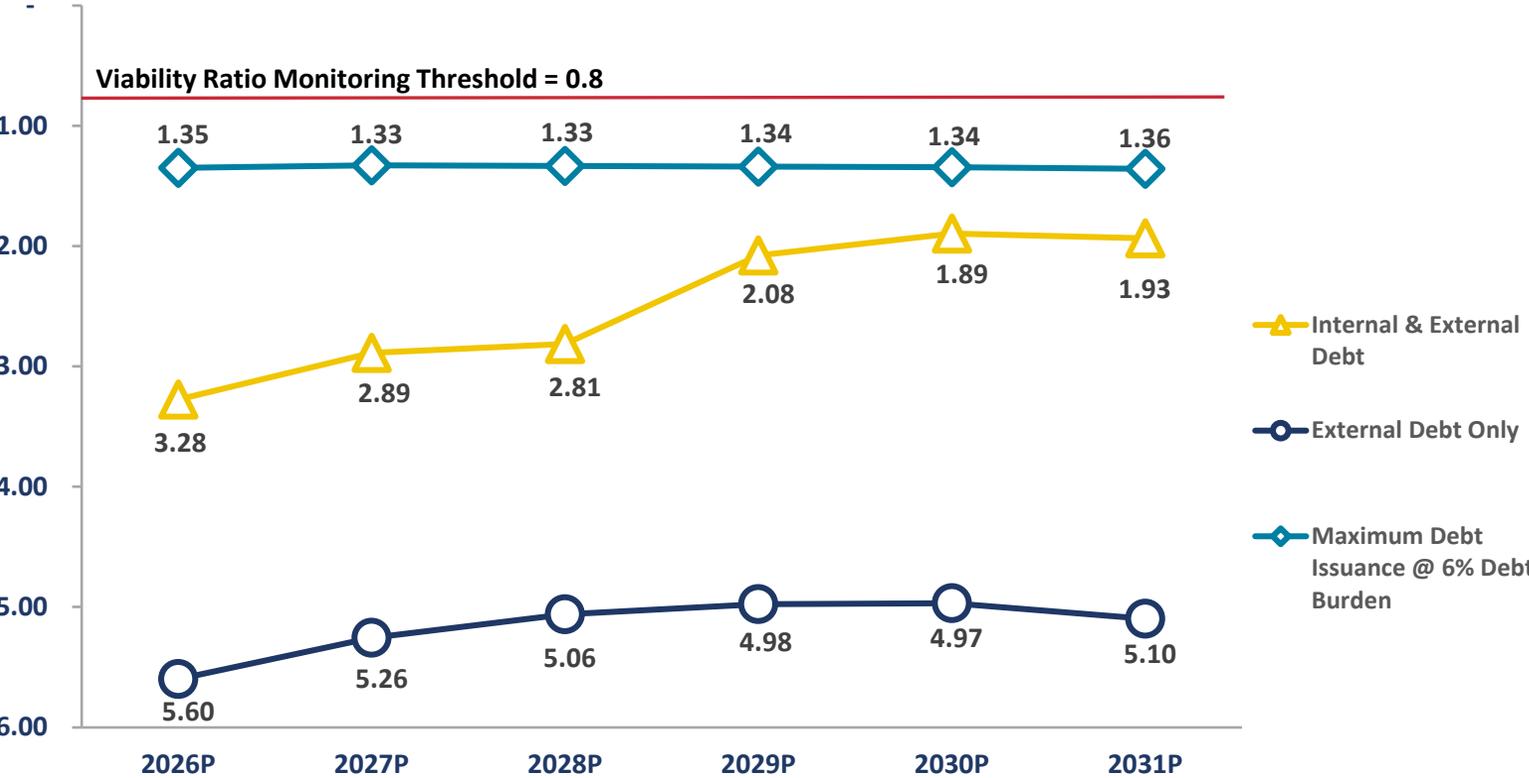
Debt Burden Ratios for Actual / Planned Debt  
(with Monitoring Ratio including Special Payments to Pension)  
for the year ending April 30



- The debt strategy sets the acceptable debt burden ratio (P&I / total expenditures) at 6%, including a provision for debt service on borrowing that has been approved but not issued.
- Based on projected expenditures and debt service costs, including actual debt issued, planned debt on approved projects, and future capital project assumptions, the projected debt burden ratios may increase to 4.1% but will remain below the 6% policy limit.

# Debt Capacity – Balance Sheet Approach

Viability Ratios for Actual and Planned Debt  
(with Viability Ratios at Maximum Debt Issuance)  
at April 30



- Debt capacity is the amount that can be borrowed based on the expendable funds available to repay. It is measured via the viability ratio (expendable resources / debt). The debt strategy identifies a viability ratio of 0.8 as a lower threshold that balances our financial, operating, and capital expansion objectives.
- The viability ratio for actual and planned debt is expected to be better than the threshold of 0.8 for all the years being forecasted. Therefore, we do not anticipate a need to adjust the debt limit based on overall capacity.

# Provincial MCURES Financial Accountability Framework (Actuals and Projections)

## MCU Financial Accountability Framework

Sustainability	2023A	2024A	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Viability Ratio	4.6	5.0	5.2	5.0	4.7	4.5	4.5	4.4	4.6
Debt Ratio	25%	24%	24%	24%	24%	25%	25%	25%	25%
Debt to Revenue Ratio	17%	15%	15%	16%	17%	18%	18%	18%	18%
Interest Burden Ratio	1.1%	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%

\* Refer to Appendix for details of MCURES risk metric definitions and thresholds

- The MCURES Framework considers only external debt and therefore excludes the portion of debt funded internally from our expendable funds.
- The MCURES sustainability ratios for the next 5 years are projected to remain in the low-risk “green” category.

# Credit Ratings comparison (as of January 2026)

- The University of Toronto continues to maintain excellent credit ratings in comparison to our peers. We are currently rated Aa1 by Moody's and AA+ by S&P, with stable outlook.
- The University of Toronto is rated 2 notches higher than the Province of Ontario.
- Credit rating agencies have noted recently that declining enrolment, including from international students, along with continued provincial tuition fee caps on domestic students, can have a negative impact to the credit rating outlook of Canadian universities.

University	Country	Moody's	S&P
Province of Ontario	Canada	Aa3	AA-
<b>University of Toronto</b>	<b>Canada</b>	<b>Aa1</b>	<b>AA+</b>
Queen's University	Canada	-	AA+
University of Western Ontario	Canada	-	AA+
McMaster University	Canada	-	AA
University of British Columbia	Canada	Aa1	A+
University of Ottawa	Canada	Aa2	-
McGill University	Canada	Aa2	AA-
University of Washington	USA	Aa1	AA+
University of Pittsburgh	USA	Aa1	AA+
University of California	USA	Aa2	AA
Ohio State University	USA	Aa1	AA+
University of Illinois	USA	Aa2	AA-
University of Minnesota	USA	Aaa	AA

# Summary

- **The current debt policy provides sufficient borrowing room for the highest priority capital projects under active consideration.**
- Ongoing uncertainty surrounding international student enrollment, inflation in the construction market and continuing volatile interest rate environment could put some pressure on available borrowing capacity in the outer years of the plan.
- As such, capital plans are regularly reviewed and updated by the President and Provost in the context of the University's long range financial plan and are adjusted as necessary to ensure that the University remains in a financially healthy position.
- Maintaining a flexible multi-year capital plan allows the University to proactively adjust capital project priorities and timing in response to evolving market conditions, safeguarding compliance with debt policy limit and sustaining healthy financial and debt metrics.

**A**

**Appendices**

# Appendix: Definitions used for Debt Policy Limit

- **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 as per policy. 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.

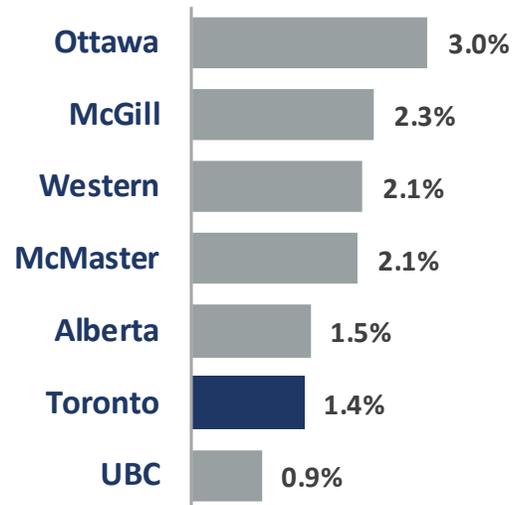
# Appendix: Provincial MCURES Risk Metric Thresholds

University Financial Accountability Framework: Technical Manual		
Date: 2023-09-20	Version: 1.1	

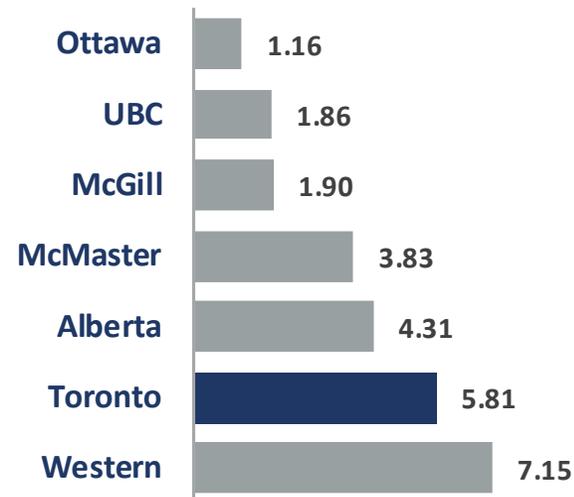
Category	Metric	Metric Definition	Metric Scale From Left To Right	Medium Threshold More Favorable ←	High Threshold Less Favorable →
LIQUIDITY	Primary reserve days	(Expendable net assets / Total expenses) x 365 days	Descending	90 days	30 days
	Working capital ratio	Current assets / Current liabilities	Descending	1.25	1
SUSTAINABILITY	Viability ratio	Expendable net assets / Long-term debt	Descending	60%	30%
	Debt ratio	Total liabilities less deferred capital contribution / Total assets	Ascending	35%	55%
	Debt to revenue ratio	Long-term debt / Total revenue	Ascending	35%	50%
	Interest burden ratio	Interest expense / Total expenses less amortization	Ascending	2.0%	4.0%
PERFORMANCE	Surplus (deficit) ratio	Surplus (deficit) / Total revenue	Descending	1.5%	0%
	Net operating revenues ratio	Cash flow from operations / Total revenues	Descending	7%	2%

# Benchmarking – Canadian Peers

**Debt Burden Ratios Based on Actual External Debt Only**  
as at Balance Sheet Date 2025



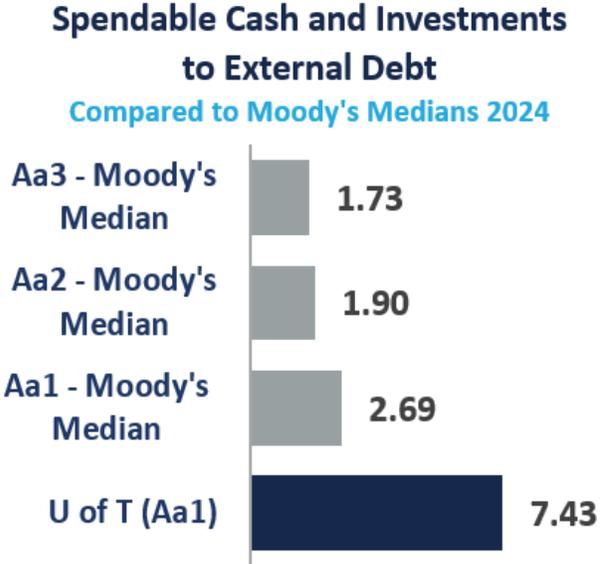
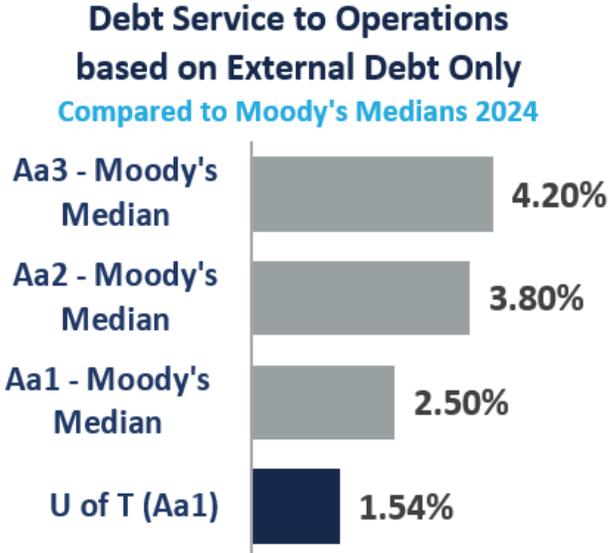
**Viability Ratios Based on Actual External Debt Only**  
as at Balance Sheet Date 2025



- At April 2025, U of T’s external debt burden ratio was below all selected peer universities, except for UBC.
- Canadian universities have increased their reliance on debt financing, while U of T has not issued significant external debt since 2011, which is reflected in these ratios.
- U of T also has a consistently higher ratio of expendable resources to external debt than most Canadian peers, except for Western University in 2025.

\*Based on published financial statements, adjusted for comparability. Includes external debt only, as information on internal debt is not publicly disclosed by all peers.  
Portion of McGill’s debt which is secured by the Government of Quebec is excluded.

# Benchmarking – Select US Peers



\* Based on Moody’s “U.S. Public College and University Medians (fiscal 2024)”.  
 The University of Toronto is not included in this report.

- When comparing U of T to U.S. universities, we see that U of T’s debt burden ratio is lower than universities with similar investment grade rating categories.
- Among US Peers, there are 18 universities at the Aa1 rating level, 29 universities at the Aa2 level, and 42 universities at the Aa3 level. At each rating level, the median university ratio is displayed. Only external debt is considered.