



University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS - FINANCE

TO: Audit Committee and Business Board

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DATE: June 5, 2007 for June 20, 2007 and June 21, 2007

AGENDA ITEM: **Business Board Item 6**

ITEM IDENTIFICATION:

Borrowing strategy – annual status report to April 30, 2007

JURISDICTIONAL INFORMATION:

The Business Board approves the financing of capital projects.

PREVIOUS ACTION TAKEN:

The Business Board approved borrowing of \$160.0 million on January 15, 2001, \$200.0 million on June 19, 2003 and \$150.0 million on June 17, 2004. It also approved a borrowing strategy on June 17, 2004. Prior to 2001, the University had approved outstanding long-term debt of \$61.2 million. Regular updates have been provided to the Board, most recently on May 7, 2007.

HIGHLIGHTS:

This report provides the Business Board with an update on the borrowing strategy. It updates the borrowing capacity to reflect the April 30, 2007 financial results, compares the borrowing capacity to approved borrowing, and reports on the long-term borrowing pool (LTBP), which is the University's internal sinking fund which accumulates funds for repayments of external borrowing.

Summary of Borrowing Capacity at April 30, 2007 (in millions of dollars)

	<u>External</u>	<u>Internal</u>	<u>Total</u>
Maximum Borrowing Capacity	675.2	200.0	875.2
Approved Borrowing	559.4	200.0	759.4
Oustanding External Borrowing	556.7		556.7
Borrowing Allocated	527.7	115.5	643.2

Background

The borrowing strategy approved by the Business Board on June 17, 2004 included several elements:

- that the internal borrowing capacity limit of \$200.0 million of internal loans from EFIP for the current capital plan and other requirements be maintained, along with the recognition that some or all of this sum may need to be refinanced externally at some time, if future cash flow patterns would change.
- that the target external borrowing capacity limit be defined as 1/3 of net assets, smoothed over 5 years, and the maximum external borrowing capacity limit be set at 40% of net assets smoothed over 5 years.
- that principal and interest repayments related to bullet debenture borrowing 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 draw downs will be sufficient to repay the bullet debentures at maturity.

On June 17, 2004, the Business Board approved an additional \$150.0 million in external borrowing.

At April 30, 2006, the approved external borrowing was \$561.4 million comprising:

- \$48.7 million of pre-2001 loans,
- \$510 million of new external borrowing and
- \$2.7 million from the City of Toronto for the St. George Lighting Retrofit and Chiller Replacement project.

At April 30, 2006, outstanding external borrowing was \$483.7 million comprising:

- \$48.7 million of pre-2001 loans,
- \$160.0 million Series A debenture,
- \$200.0 million Series B debenture and
- \$75.0 million Series C debenture.

The remaining \$75 million approved on June 17, 2004 had not yet been borrowed.

Borrowing is 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 income repayment terms, and make regular principal and interest payments on these loans.

Update to April 30, 2007

During 2007, a review of the borrowing strategy was undertaken and a report was presented to the Business Board on January 15, 2007 which concluded that the current borrowing strategy is financially prudent and provides sufficient capability to meet key priorities for the next several years under current accounting rules.

To April 30, 2007, the strategy for borrowing \$200.0 million from internal funds was unchanged. Cash flow patterns support its continuance. At April 30, 2007, \$115.5 million of internal fund had been loaned under the internal loan programme. No defaults have occurred on any of these loans.

At April 30, 2007, the maximum external borrowing capacity limit is \$675.2 million, representing 40% of net assets smoothed over 5 years.

At April 30, 2007, the approved external borrowing decreased by \$2.0 million to \$559.4 million due to principal repayments of pre-2001 loans. No additional external borrowing has been approved during 2007.

Outstanding external borrowing at April 30, 2007 was \$556.7 million, an increase of \$73.0 million, due to the issue of the Series D debenture on December 13, 2006 for \$75.0 million offset by principal repayments on loans arranged prior to 2001. The \$75.0 million debenture is the remainder of the \$150.0 million borrowing approved in June 2004.

As of April 30, 2007, \$42.8 million of the \$75.0 million Series D debenture has been loaned out internally.

The LTBP accumulates funds for repayment of the Series A, B, C and D debentures. At April 30, 2007, the LTBP assets had a balance of \$40.4 million. The \$40.4 million consists of principal repayments from internal loans of \$35.8 million and an internally restricted asset of \$4.6 million. The internally restricted asset of \$4.6 million represents the excess of cumulative LTBP earnings and interest payments from internal loans over the debentures' interest and expenses.

With time, the principal repayments from internal loans together with investment income on these funds are expected to grow to fund the debenture payments at maturity dates. The income statement and balance sheet for the LTBP are attached as appendix A.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

-None

RECOMMENDATION:

For information.

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

Income Statement
(in millions)

	<u>2007</u>	<u>2006</u>
Net investment income on cash balances	4.8	1.9
Interest income from internal loans	27.3	24.8
Fees and amortization of issue costs	(0.2)	(0.2)
Semi-annual interest payments to bond holders	<u>(27.5)</u>	<u>(24.2)</u>
Change in internally restricted net assets	4.4	2.3
Internally restricted net assets, opening balance	<u>0.2</u>	<u>(2.1)</u>
Internally restricted net assets, closing balance	<u><u>4.6</u></u>	<u><u>0.2</u></u>

Balance Sheet
(in millions)

	<u>2007</u>	<u>2006</u>
Assets		
LTBP investments*	37.3	17.8
Unamortized issue costs (prepaid expenses)	<u>3.1</u>	<u>2.6</u>
	<u><u>40.4</u></u>	<u><u>20.4</u></u>
Liabilities		
Principal collected to date and payable to bondholders on various maturity dates	35.8	20.2
Net assets		
Internally restricted net assets	4.6	0.2
	<u><u>40.4</u></u>	<u><u>20.4</u></u>

*At April 30, 2007, investments include \$69.5 million less \$32.2 million representing the portion of the \$75 million Series D debenture not yet loaned out internally.