University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS - FINANCE

TO: Audit Committee and Business Board

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DATE: June 5, 2008 for June 18, 2008 and June 19, 2008

AGENDA ITEM:

ITEM IDENTIFICATION:

Borrowing strategy – annual status report to April 30, 2008

JURISDICTIONAL INFORMATION:

The Business Board approves the financing of capital projects.

PREVIOUS ACTION TAKEN:

The Business Board approved borrowing of $512.7 million over the period from January 15, 2001 to February 27, 2006. It also approved a borrowing strategy on June 17, 2004 which was most recently reconfirmed in February 2008. 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 April 28, 2008.

HIGHLIGHTS:

This report provides the Business Board with an update on the borrowing strategy. It updates the borrowing capacity to reflect the April 30, 2008 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, 2008
(in millions of dollars)

	External	Internal	Total
Maximum Borrowing Capacity	748.0	200.0	948.0
Approved Borrowing	557.2	200.0	757.2
Oustanding External Borrowing	556.3		556.3
Internal loans issued	534.7	149.3	684.0

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 maximum external borrowing capacity limit be 40% of net assets averaged 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.

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.

At April 30, 2007, external outstanding borrowing was $556.7 million comprising: $46.7 million of pre-2001 loans, $160.0 million Series A debenture, $200.0 million Series B debenture, $75.0 million Series C debenture and $75.0 million Series D debenture. An additional $2.7 million loan from the City of Toronto was approved for the Energy Efficiency Project, but the borrowing had not yet occurred.

Update to April 30, 2008

During 2008, a review of the borrowing strategy was undertaken and a report was presented to the Business Board on February 4, 2008 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, 2008, the strategy for borrowing $200.0 million from internal funds was unchanged, with $149.3 million loaned under the internal loan programme.

At April 30, 2008, the maximum external borrowing capacity limit is $748.0 million, representing 40% of net assets smoothed over 5 years.

Outstanding external borrowing at April 30, 2008 was $556.3 million, a decrease of $0.4 million, due to the issue of the City of Toronto interest-free loan for $1.8 million offset by principal repayments on loans arranged prior to 2001.

Please note that the external borrowing of $558.4 million reported in the University of Toronto financial statements reflects the application of new accounting rules which included the netting of unamortized discounts for the external loans issued and a market value adjustment for swap contracts related to pre-2001 loans.

As of April 30, 2008, series A, B, C debentures were fully loaned internally and $53.4 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, 2008, the LTBP assets amounted to $52.8 million, consisting of principal repayments from internal loans of $49.0 million and an internally restricted asset of $3.8 million. The internally restricted asset of $3.8 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)

	2008	2007
Net investment income on cash balances	-	4.8
Interest income from internal loans	28.9	27.3
Fees and amortization of issue costs	(0.1)	(0.2)
Semi-annual interest payments to bond holders	(29.6)	(27.5)
Change in internally restricted net assets	(0.8)	4.4
Internally restricted net assets, opening balance	4.6	0.2
Internally restricted net assets, closing balance	3.8	4.6

Balance Sheet
(in millions)

	2008	2007
Assets		
LTBP investments*	49.8	37.3
Unamortized issue costs (prepaid expenses)	3.0	3.1
	52.8	40.4
Liabilities		
Principal collected to date and payable to bondholders on various maturity dates	49.0	35.8
Net assets		
Internally restricted net assets	3.8	4.6
	52.8	40.4

*At April 30, 2008, investments include $71.3 million less $21.6 million representing the portion of th $75 million Series D debenture not yet loaned out internally.