



University of Toronto

OFFICE OF THE VICE PRESIDENT, BUSINESS AFFAIRS

Memorandum to: Business Board
From: Felix P. Chee
For: Meeting of May 6, 2002

Agenda Item: 4(b)

Item Identification: Capital Borrowing for Construction Projects
Long Term Borrowing Pool – Status Report

Basis of Business Boards Jurisdiction

Business Board approves the financing of capital projects.

Previous Action Taken

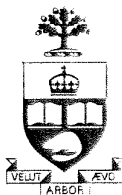
On January 15, 2001, Business Board authorized the Chief Financial Officer to borrow up to \$160 million for the financing of construction projects, which have been or will be approved by the Governing Council, and to determine the most appropriate financing structure. Funds obtained this way would create a long-term borrowing pool (LTBP) from which the CFO would make allocations to individual projects approved by the Business Board. The Chief Financial Officer or his replacement would provide a report periodically to the Business Board on the status of the LTBP.

Highlights

On July 18, 2001, the University issued a \$160 million 30 year debenture. The proceeds were placed into the LTBP and invested by the University of Toronto Investment Management Corporation pending allocation to capital projects.

To date, \$57.3 million has been allocated, with an additional \$62.5 million expected to be allocated by the end of the summer. In each case the interest rate charged to the internal borrower reflects the full cost to the University including the external borrowing cost, the debenture issue costs, and any shortfall between interest earned and interest to be paid out between July 18, 2001 and the date on which the internal borrower receives the funds.

These LTBP allocations are part of a comprehensive internal borrowing program, which is being put in place to better organize and control borrowing in support of the capital construction program.



University of Toronto

Felix P. Chee

Vice-President, Business Affairs

April 22, 2002

TO: Members of the Business Board

SUBJECT: Status Report – Long Term Borrowing Pool

Prior to the current year, the University had very little external borrowing. The audited financial statements at April 30, 2001 reported long-term debt of \$60.2 million, virtually all of which represented loans for residences. The University's practice had been to seek bank financing, via a competitive bid process, on a project by project basis.

The capital construction program demanded a more systematic approach. On January 15, 2001, the Business Board approved external borrowing of \$160 million, the proceeds of which would be placed in the Long Term Borrowing Pool (LTBP) and used to finance capital projects approved for borrowing by the Business Board.

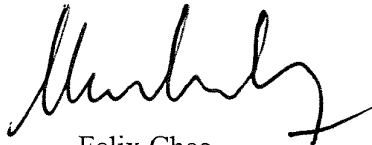
On July 18, 2001, the University issued a \$160 million 30 year debenture. The interest rate was 6.78%, with interest payable semi-annually, and the principal repayable on July 18, 2031. The proceeds were placed into the LTBP and invested by the University of Toronto Asset Management Corporation pending allocation to capital projects. The allocations from the LTBP thus far are:

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|-----------------|---|
| \$ 30.0 million | University Investment Infrastructure Fund, effective July 18, 2001, at a rate of 6.907% for 25 years. The internal borrower is the University operating fund. Repayment is via monthly blended principal and interest payments. |
| \$ 13.0 million | Acquisition of 30 and 35 Charles Street West, for use as family housing, effective September 4, 2001, at a rate of 6.907% for 25 years. The internal borrower is the St. George Family Housing ancillary. Repayment is via monthly blended principal and interest payments. |
| \$ 14.3 million | Acquisition of the Medical Arts Building, initially for continued use as medical offices, and ultimately for academic use, effective February 20, 2002, at a rate of 6.941% for 25 years. The internal borrower is the Real Estate ancillary, with the expectation that the internal loan will be transferred to the University operating budget over time. Repayment is via monthly blended principal and interest payments. |

Additional allocations planned for the near future, include about \$19.4 million for the Bahen Centre for Information Technology (BCIT), \$13.1 million for the BCIT parking garage, and \$30 million for the University Investment Infrastructure Fund.

In each case the interest rate charged to the internal borrower is the sum of the external borrowing cost, the debenture issue costs, and any shortfall between interest earned and interest to be paid out between July 18, 2001 and the date on which the internal borrower receives the funds. Principal and interest payments made by internal borrowers will be used to pay the semi-annual debenture interest payments, with the excess being accumulated and invested to repay the principal at the maturity date.

These LTBP allocations are part of a comprehensive internal borrowing program, which we have designed to harness both the debenture proceeds and internal cash. Currently outstanding external loans are being reviewed to see which ones may be paid off. We do not currently plan to seek any additional external borrowing before September 2003. We will be bringing forward, for approval by Business Board, a revision to the Investment Policy for the Expendable Funds Investment Pool once our analysis of our internal cash requirements has been completed.

A handwritten signature in black ink, appearing to read 'Felix Chee', with a stylized flourish at the end.

Felix Chee
Vice-President, Business Affairs