



UNIVERSITY OF
TORONTO

University of Toronto

Debt Policy

May 2023

Debt Policy

The University's debt policy limit, based on a 6% debt burden ratio and a 0.8 viability ratio, takes into account:

- the need for debt,
- the appetite for debt,
- key financial parameters and indicators of financial health,
- comparisons to industry benchmarks and credit rating assessments,
- the projected split between internal and external debt
- exposure to indirect debt and
- the projected timing of debt issuance.

The elements of the debt strategy are summarized as follows:

Definition of Debt:

Debt includes both direct debt and indirect debt exposure. **Direct Debt** includes all long-term external and internal borrowed funds obtained by any means (e.g. debenture, bank loan), and excludes letters and lines of credit and all short-term and medium term internal financing for purposes such as fund deficits. External debt includes all funds borrowed from third party lenders while internal debt includes funds borrowed by the University from its expendable cash flows. **Indirect debt** includes debt exposure through a partnership or joint venture arrangement that is not recorded on the University's balance sheet, but which may expose the University to potential financial or reputational liability.

Debt policy limit:

The debt policy limit includes internal debt, external debt, and indirect debt with fungibility between them. The limit is determined on the basis of debt affordability, moderated when necessary and appropriate by considerations of debt capacity. Debt affordability is measured by the debt burden ratio (principal plus interest divided by total expenditures) and the maximum debt policy limit is calculated using a debt burden ratio of 6%. Debt capacity is measured by the viability ratio (expendable resources divided by total external and indirect debt). Note that internal debt is excluded from the viability ratio as the use of internal resources to fund debt reduces expendable resources and mirrors the settlement of external debt using University funds.

The debt policy limit will be calculated annually on the basis of the 6% debt burden ratio. If the viability ratio associated with that debt policy limit is less than 0.8, then consideration will be given to moderating the debt policy limit.

Credit ratings:

Credit ratings will be excluded from policy determination because they are subject to many external factors, including changes in rating agency methodologies over time.

Long-term borrowing pool (LTBP):

The long-term borrowing pool is the sinking fund that accumulates funds for repayment of external debt. Principal and interest payments related to bullet debenture borrowing will continue to be placed in the LTBP, and, together with investment income, will 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 drawdowns will be sufficient to repay the bullet debentures at maturity.

Borrowing method:

The borrowing method (e.g. private placements, loans, debentures, or other method) is determined by the senior officer responsible for financial matters. The senior officer responsible for financial matters is authorized to negotiate and finalize borrowing agreements with external or internal parties, and to issue loans from either internal or external debt for projects where borrowing has been authorized by the Business Board.

Internal borrowing programme:

The debt policy limit includes both internal and external debt, and the internal debt component is limited to 40% of the Expendable Funds Investment Pool (internal debt outstanding divided by audited April 30 EFIP balance plus internal debt outstanding). Cash flows are projected to be sufficient to allow considerable flexibility in bridge-financing future external debt issuance. An upper limit of 40% of EFIP has been established to recognize the need for liquidity and to provide for any possible future changes in cash flow patterns. Processes and procedures for internal loans are determined by the University Administration.

Indirect debt programme:

The administration will evaluate the indirect debt exposure of each project undertaken via a development partnership as it is brought forward for approval, based on the nature and characteristics of the project and the development partner.

The administration will evaluate whether the University would remedy in an event of default and assess the risk of a partner to default on its debt using a combination of quantitative and qualitative factors, including metrics such as cash flow forecasts, operating income projections, and debt service coverage ratios, and will identify a percentage risk factor for each project. This percentage will determine the proportion of off-balance sheet debt to be included in the University's debt policy limit.

The risk exposure and indirect debt allocation associated with these projects will be re-evaluated on at least an annual basis, identifying any possible deterioration in the financial forecasts of each project. The senior officer responsible for financial matters is authorized to determine the appropriate proportion of indirect debt to be included in the debt limit. Updates will be reported to the Business Board at least annually.

Comparisons to others:

Moody's U.S. Public College and University Medians continues to be the key comparator because the data is readily available and published annually for a large comparison pool that is relevant for the University of Toronto. Comparisons to other Canadian universities will be provided to governors periodically.

Accountability to governors:

The Business Board has authority for approval of this debt strategy; approval of all capital projects with a borrowing component; and approval of the legal borrowing resolutions required from time to time for issuance of external debt.

The Business Board will receive regular reporting on the status of debt outstanding at each meeting, as well as an annual review of the University's debt strategy. The University will report regularly on the debt limit and actual debt outstanding, including a breakdown of internal, external, and indirect debt exposures. Debt monitoring ratios will include the debt burden ratio, the viability ratio, and any financial health indicators established by the Ministry of Colleges and Universities to enhance financial transparency and prudent debt management.

Given the large obligation that the University has with respect to the past service pension liability, an additional metric will be calculated to monitor the combined impact of debt service and any pension special payment obligations on the University's ability to pay.