

Capital Debt Policy

Approved:
 Effective Date:
 Signature/Position:

Board of Governors
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 Assistant Vice-President, Finance and Services

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SUBJECT

Capital Debt Policy

PURPOSE

The purpose of the Capital Debt Policy is to define and provide guidelines on:

- Responsibilities for the approval of new University external capital debt (borrowing)
- Maximum limits on the amount of total external capital debt incurred by the University
- Reporting on external capital debt

POLICY

1. Capital borrowing will be undertaken by the administration only after review and recommendation for approval to the Board of Governors of both design and costs of the related project(s) by the Physical Resources and Property Committee and the financial plan of the related project(s) by the Finance Committee. Board of Governors approval shall include the total cost of the project, source(s) of funds for debt repayment and the period of time over which the debt is planned to be repaid.
2. Individual colleges/departments of the University are not legal entities and are therefore not permitted to borrow funds.
3. The University will seek to borrow funds from external financial organizations in an effective and competitive manner taking into consideration factors such as term, cost of funds, security required and repayment options. Internal funds generated from overall University cash flow not immediately required to meet their targeted purpose, may be advanced to finance projects until external financing is obtained. In these cases any advanced funds will be charged to the project at an internal rate of interest taking into consideration the term and the costs of advancing the funds to the total University cash flow.
4. Fixed versus Floating Rate Debt: Lower financing costs may generally be achieved by accepting some interest rate risk through the use of floating rate debt. The administration will manage the percentage of fixed rate to floating rate external debt within the following ranges:

Floating rate debt is generally defined as debt with an effective term of one year or less and fixed rate debt, one year or more. Interest rate swap agreements may be used to manage the mix between floating and fixed rates on the University's debt. The purpose of using a portion of floating rate debt for capital purposes is to lower the overall costs of borrowing however it is recognized that floating debt carries with it risk. The purpose of the following guidelines is to define an acceptable level of exposure to both floating and fixed debt.

	Maximum	Minimum
Floating Rate Debt	40%	0%
Fix rate Debt (term greater than 1 year)	100%	60%

5. Term loans shall be used instead of demand loans wherever possible and whenever possible, loans shall be made on an unsecured basis. Mortgages may be given for residence related debt.
6. The University should not obtain all of its external financing from any one lender. Although no specific limits are set, the University should obtain funds from a number of different institutions sufficient in order to avoid undue influence of any single lending source.
7. Project loans shall be amortized with annual principal repayments and in the case of non-amortizing loans, an internal sinking fund shall be established with the objective of retiring the principal owing at or before the end of the term. (The term of the sinking funds and the term of the loan match.) In cases where the term is less than 25 years and the related capital asset(s) have expected use lives of 25 year or more, the sinking fund term may be extended to 25 years.

LIMITS TO CAPITAL BORROWING:

8. The University has selected the following two key ratios as benchmarks for the maximum level of debt. Debt shall be measured as total external debt less funds restricted by the Board of Governors for debt repayment normally by establishing an internal "sinking fund".

Compliance with these ratios should ensure that the University maintains a strong credit rating and stable access to competitively priced financing. Unless otherwise noted, the following benchmarks establish the maximum value for each ratio.

	Description of Debt Ratio	Benchmark
A.	Ratio of Debt to Total Revenue: This ratio measures the amount of total capital debt as a percentage of total University revenues.	45%
B.	Debt Service Costs as a Percentage of Revenues: This ratio measures the percentage of total University revenue that is allocated to debt principal and interest payments	4.5%

REPORTING

9. The administration shall report at least annually through the Finance Committee to the Board of Governors on:
- Current and projected debt levels
 - The amount of current debt that is on a floating rate basis and on a fixed rate basis the term of each loan
 - Compliance with the debt ratios listed above.
 - Status of any invested funds restricted by the Board for future debt repayment (internal sinking funds)

In a case of unexpected or unplanned non-compliance with any of the ratios, administration will immediately report of such non-compliance to the Finance Committee and the next scheduled meeting of the Board of Governors.