

The UNIVERSITY of WESTERN ONTARIO
POLICIES and PROCEDURES

2.30 CAPITAL DEBT POLICY

Classification: Financial

Effective Date:03MAY07

Supersedes: 04MAY06

PURPOSE

The purpose of the Capital Debt Policy and Capital Debt Guidelines is to define:

- the responsibilities for the approval of capital debt
- the maximum limits on the amount of capital debt
- the system of accountability

POLICY

- 1.00 Capital borrowing will be undertaken by the administration only following approval of the capital project by the Board of Governors or as may be delegated to the Property and Finance Committee. Such 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.
- 2.00 Associated Companies whose accounts are included in the University's combined financial statements in accordance with generally accepted accounting principles shall not incur debt without first obtaining approval from the Board of Governors of the University. This process does not represent that this debt will be guaranteed by the University to the lending institution. No guarantee or similar instrument shall be signed on behalf of the University without the specific approval of the Board of Governors.
- 3.00 Individual Faculties are not legal entities and are therefore not permitted to borrow funds without the approval of the Board of Governors.
- 4.00 Individual Faculties and Budget Units are not permitted to restrict the use of future operating funds for external debt repayments related to capital projects without the approval of the Board of Governors.
- 5.00 The University will seek to borrow funds from the lowest-cost source of financing available. Surplus internal funds may be advanced to finance projects until external financing is obtained.

GUIDELINES RELATED TO CAPITAL DEBT

- 6.00 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 floating rate debt within the range of 0% to 50% of total debt.

Interest rate swap agreements may be used to manage the mix between floating and fixed rates on the University's debt.

- 7.00 Term loans shall be used instead of demand loans wherever possible.
- 8.00 Whenever possible, loans shall be made on an unsecured basis. Mortgages may be given for residence related debt.
- 9.00 No more than 80% of total debt should be obtained from any one lender.

10.00 Project loans shall be amortized with annual principal repayments and in the case of non-amortizing loans, a sinking fund shall be established to retire the principal owing at the end of the term.

11.00 The University has selected the following key ratios as benchmarks for the maximum level of debt. Compliance with these ratios should ensure that Western maintains a strong credit rating and continuing access to new debt that may be required.

(a) Debt per Student FTE:

This ratio measures the amount of total UWO capital debt on a per FTE basis. The amount of total debt shall remain less than \$7,500 per student FTE.

The amount of debt per student shall be adjusted by the change in the Consumer Price Index (CPI). Such adjustment shall be made on an annual basis as at April 30th following the inception date of this policy (November 2002).

(b) Ratio of Debt to Total Revenue:

This ratio measures the amount of total UWO capital debt as a percentage of total UWO revenue. Total debt shall remain less than 35% of total revenue.

(c) Debt Service Costs as a Percentage of Revenues:

This ratio measures the percentage of total revenue that is allocated to debt principal and interest payments. For this calculation, the amount of debt principal payments shall include only those repayments that are obligatory repayments under the terms of each loan. Special principal repayments, made at the discretion of the University, shall be excluded from the calculation. The amount of obligatory debt principal and interest payments shall not exceed 4% of total University revenues as reported on the combined financial statements (based on a 25 year amortization for floating rate debt, using existing and anticipated financing rates).

(d) Ratio of Debt to Revenues that are Available for Debt Repayment:

This ratio measures the amount of total UWO capital debt as a percentage of revenues that are available to service debt. Such revenues include ancillary revenue, provincial operating grants, tuition fees and a portion of investment returns, but do not include research grants. Total debt shall remain less than 45% of revenues that are available to repay such debt.

REPORTING

12.00 The administration shall report annually through the Property and 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.