PROCEDURE FOR POLICY 2.30 – Capital Debt Policy

PROCEDURES RELATED TO CAPITAL DEBT

1.00 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.

2.00 Term loans shall be used instead of demand loans wherever possible.

3.00 Whenever possible, loans shall be made on an unsecured basis. Mortgages may be given for residence related debt.

4.00 No more than 80% of total debt should be obtained from any one lender.

5.00 Project loans shall be amortized with annual principal repayments.

6.00 For non-amortizing debentures, the University shall restrict a notional amount of non-endowed funds for the purpose of interest and principal repayment. Any amounts shall be subject to review by the University on a regular basis.

7.00 University management shall have the authority to manage the assets and liabilities of the University in compliance with policy ratios (or financial measures). These policy ratios shall be used by the University as guidelines to determine the University's optimal amount of outstanding debt by measuring the impact of outstanding debt on financial position. These policy ratios shall be subject to review by the University on a regular basis.

For the purposes of this Policy, the policy ratios shall be as follows:

A) Compliance Ratios

i) Net Assets-to-Debt Ratio:

This ratio measures net assets relative to liabilities (balance sheet leverage) and is an indicator of debt capacity and of the medium- to long-term health of the University's balance sheet. It measures the availability of net assets that are expendable in relation to outstanding aggregate external debt.

It is measured as the ratio of net assets to outstanding external debt.

The University has established a threshold of 0.5x coverage.

ii) Debt Burden:

This ratio measures a key determinant of debt affordability and the proportion of the resources of the University used to support the cost of debt. This ratio measures the percentage of operating revenue dedicated to repaying the University's current and potential debt burden.

The University has established a threshold of 5%.

B) Monitoring Ratios: Additional ratios used by Administration to provide the Board with a more complete understanding of the University's credit and financial profile.

i) Debt per FTE Student

This ratio measures the amount of total capital debt in relation to FTE students.

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).

ii) Debt to Revenues Available for Payment

This ratio measures the amount of total 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.