Laurentian University Capital Debt Policy

Category:	Financial Policy
Administrative Authority:	Vice-President Administration
Approval Authority:	Board of Governors
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A) PURPOSE

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

1. Responsibilities for the approval of new University external capital debt (borrowing)

2. Maximum limits on the amount of total external capital debt incurred by the University

3. Reporting on external capital debt

B) POLICY

1. This policy applies to any unit of the University

2. Within the Board of Governors, the Finance Committee is primarily responsible for matters relating to capital debt. Within University administration, the Vice-President Administration is primarily responsible for matters relating to capital debt.

3. 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 Development and Planning or 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.

4. Individual Faculties or Departments are not legal entities and are therefore not permitted to borrow funds without the approval of the Board of Governors.

5. 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.

C) <u>GUIDELINES RELATED TO CAPITAL DEBT</u>

1. 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 Finance Committee will determine the appropriate balance between fixed and floating interest rates. The Administration will manage the percentage of fixed to floating rate debt with the following ranges:

	Max	**Min**
Floating rate debt	40%	0%
Fixed rate debt (one year or more)	100%	60%

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

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

4. 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.

D) <u>LIMITS TO CAPITAL BORROWING</u>

1. The University has selected the following three 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**
(i) Ratio of Debt to Total Revenue: This ratio measures the amount of total capital debt as a percentage of total University revenues.	45%
(ii) 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%
(iii) Debt per student FTE The amount of Total debt shall remain at less than $7,500 per student FTE	

2. Capital Borrowing for Revenue Generating or Self-Funding Assets may be exempted from the above-stated limits provided:

   -the additional debt can be financed without adversely affecting the University's overall credit rating;
   -repayment of the debt does not result in a charge against the operating budget;
   -the assets for which the debt is incurred will be reasonably expected to generate a revenue stream capable of completely repaying the related debt obligations;
   -the capital project and related borrowing has been approved as stated in section B3.

E) <u>REPORTING</u>

Reporting to the Finance Committee

The Administration will report annually to the Finance Committee on the following aspects of capital debt:

<u>Composition of current capital debt</u>: amount, term, interest rate, provisions for repayment, and anticipated changes over the next year.

Allocation of capital debt between fixed interest rate debt and floating interest rate debt

Debt capacity: the report should include the following financial statement ratios

Total Debt to Total Revenue – all inclusive
Debt to Total Revenue – excluding debt described in section D2
Debt per FTE Student
Unrestricted net assets per FTE
Debt Service Costs/Total Revenue

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.