Policy #	Debt Management Policy
Current Publication Date:	May 13, 2024 (Approved by Board of Governors)
Previous Publication Date(s):	N/A
Office of Accountability:	Finance Office
Administrative Responsibility:	Director, Finance Vice-President, Finance & Administration
Approver(s):	Audit, Finance and Risk Committee of the Board of Governors on the recommendation of the Director, Finance and Vice-President, Finance & Administration

PREAMBLE

In this policy, ‘debt’ means a long-term financing or credit facility with a repayment term of greater than one year that is needed to finance university capital projects or business purposes considered mission-critical and/or self-supporting.

Capital projects require a combination of financing sources including internal reserves, external debt, gifts, future revenue streams, grants and deferred contributions, but debt is nevertheless a typical component of a university’s financial statements.

OBJECTIVES

The prudent management of debt and attention to debt metrics is an important element of financial stewardship for the university.

Through this policy, the University aims to build financial transparency and address possible risks associated with the use of debt to finance university projects in the ways set out in the Terms and Provisions of this Policy.

Terms and Provisions of this Policy

1. **Calculation and Maintenance of Debt Metrics/Ratios and Credit Ratings:**

   a) The University shall maintain the various debt metrics required by the Ministry of Colleges and Universities (MCU) as set out below and as required. The ratios measure University balance sheet resources and annual cash flow and are derived from the University’s audited annual financial statements.

      i) **Viability Ratio: Expendable Net Assets/Long -term debt**
      Measures the extent to which the university has available resources required to settle its long-term obligations. This ratio helps assess the current debt capacity and the ability to take on new debt. A result of 60% or more is favourable.

      ii) **Interest Burden: Interest expense/total expenses – depreciation**
      Measures a key determinant of debt affordability as it analyzes how much of the university’s cash flow is being used to cover interest expenses to pay the University’s current and potential interest burden. A result of 2.0% or less is favourable.

      iii) **Debt to Revenue: (Long-term debt/total revenues)**
      Measures the ability of the university to manage the payments to repay debt.
      A result of 35% or less is favourable.

      iv) **Debt Service: (Total liabilities-deferred capital contributions/total assets)**
      Measures the ability of the university to manage the payments to repay debt.
      A result of 35% or less is favourable.

b) Annual Reporting of University Debt Metrics and Credit Rating:

Management shall report on the university's historical debt ratio trends noted above and in Appendix A to the Audit Finance & Risk Committee annually together with commentary as to whether current ratios are 'in compliance" with Ministry-set targets and any consequential factors, risks and possible remedial measures if the various metrics do not meet Ministry-set targets. This report shall form part of the Board of Governors' consideration for approval of the university's audited annual financial statements.

2. Advising on Unremedied Breaches of Debt Covenants

Management will immediately advise the Chair of the AFRC and of the Board of any unremedied breach of then-existing debt covenants together with the ramifications of such breach and a recommended course of action for resolving such breach.

3. Ensuring that Current and Planned Debt Service Costs Are Included in Financial Planning and Forecasts:

Management shall ensure that there is provision for sufficient funding for debt service and interest payments along with associated costs (fees, credit rating fees, etc.) in the university's Multi-year Financial Plan presented to the Board of Governors and the Annual Operating Budget approved by the Board of Governors.

4. Approval and Review of Additional Debt

i) Any additional credit facility and indebtedness shall be considered for approval by the Board of Governors subject to receiving:

- An analysis and review by management confirming that undertakings and provision of the credit would not impair the debt/metrics or the University's credit rating, together with along a 3rd party assessment by a CPA firm to that effect.

- Analysis, review and prior approval by the Board of Governors of the purpose, capital project and business plan for which the credit facility is required.

5. Policy Review Period

This debt management policy will be reviewed every three years or as necessary.

APPENDIX A

The table below sets out additional ratios that the Ministry currently uses to assess a university's financial health.

Ratio	Description	Calculation and target
Net Income/Loss	A performance measure that calculates the net income or loss as a percent of total revenues.	Net income / Total expenditures >1.5%
Net Operating Revenues	A performance measure that calculates cash flow from operating activities as a percent of revenues.	Cash generated from operations/ Revenue > 7.0%
Primary Reserve (days)	A liquidity measure that calculates the number of days university reserves can cover operating expenses.	Expendable net assets / Total expenses *365 days > 90 days