



## **BDXX Debt Management Policy**

Classification:	Board of Governors
Responsible Authority:	President
Executive Sponsor:	Vice President Finance & Administration
Approval Authority:	Board of Governors
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### **PURPOSE**

The purpose of this policy is to establish guidelines for the use of financing, external or internal, to assist in ensuring that debt is only used to support the University's mission and purpose and only when the University can afford such financing. The policy also establishes targets that will be used to ensure the overall level of debt payments does not exceed the university's fiscal capacity.

### **SCOPE**

The scope of this policy shall include all funds within the University's consolidated financial statements.

No University official or employee may approve or enter into financing on behalf of the University unless such financing is allowed under this policy and is approved as per this policy.

### **DEFINITIONS**

Debt Charges – Principal and interest payments associated with debt financing.

Internal Loans – internal operating cash balances used to finance capital projects.

### **APPROVAL POLICY**

Line of Credit - Increases to line of credit facilities must be approved by the Board of Governors

External Loans and Capital Leases - All external loans and capital leases must be approved by the Board of Governors.

Operating Leases - Operating leases can be approved by University signing officers only when there are sufficient budget provisions to pay for those leases. Any operating lease that commits the university to cumulative payments in excess of \$1 million over the term of the lease requires approval from the Board of Governors.

Internal Loans - The use of Internal Loans is to be minimized and not be part of normal business operations.

Internal loans that in total do not exceed in any fiscal year 1% of the General Operating Fund budgeted expenditures, net of internal cost recoveries, and which have a payback of less than 5 years, require the approval of the President on recommendation from the Vice President Finance & Administration.

Other Internal loans require the approval of the Board of Governors.

Details of all Internal Loans shall be provided to the Audit & Investment Committee on an annual basis as part of the year-end financial reporting process. The report will detail amounts outstanding and the repayment provisions.

## **GUIDELINES – USE OF FINANCING**

1. Financing is a scarce resource and should be used only on priority projects, ie projects considered to be critical to the University's mission and/or are self-supporting.
2. Financing is to be used strategically and with a goal to achieve the lowest cost of funding for the University as whole.
3. The first priorities for funding capital projects are capital grants, project-derived operating revenues/reduced operating expenditures, or realized donations that reduce financing requirements. Where a capital project involves philanthropic support, grants or other external restricted funds, the total of such funds received must be 75% of the target for such funds before any tenders can be issued related to the project.
4. Any debt will have an identifiable source of servicing including repayment as a condition of approval.
5. The University will seek to borrow funds from external financial organizations in an objective, effective and competitive manner.
6. The University will take into account the University's assets, liabilities, unrestricted cash flow and market conditions when evaluating different debt strategies and instruments.
7. Whenever possible, loans shall be made on an unsecured basis.
8. All loans shall amortize principal repayments. For new construction, the term of loans shall not exceed the useful life of the capital project being financed or twenty-five (25) years whichever is less. For major refurbishment projects, the term of loans shall not exceed fifteen (15) years.

9. The University shall report annually to the Finance Committee and Audit & Investment Committee the University's compliance with all covenants and obligations associated with any outstanding financing.
10. The University's annual budgets, approved by the Board of Governors, will include sufficient amounts for any annual interest and principal payments.

### GUIDELINES - INTERNAL LOANS

1. Internal Loans may not be sourced from the University's endowment principal or pension plans' investments.
2. The use of Internal Loans cannot compromise the operational liquidity requirements of the University. The University will report regularly to the Finance Committee on the operational liquidity.
3. All Internal Loans will have amortization schedules for repayment that are in accordance with the guidelines for use of financing above.

### DEBT CAPACITY LIMITS

General Operations – annual Debt Charges (net of any revenue increases/cost reductions associated with capital projects) shall not exceed 2.5% of general operating revenues.

Ancillary Operations – annual Debt Charges (net of any revenue increases/cost reductions associated with capital projects) shall not exceed 25% of residence fee revenues (room only).

**NOTE:** At the time of approval of this Policy, annual Debt Charges for Ancillary Operations exceed the debt capacity limit. It is a priority of the Board of Governors to become compliant with the limits. For the next 3-5 year period, outstanding debt will be reduced through meeting prescribed debt repayment schedules. Following this period, subject to prevailing interest rates and penalties, consideration will be given to blending all outstanding residence debt and refinancing it over a period not to exceed 15 years. The objective of this refinancing will be to reduce annual debt charges to a level that is in accordance with the debt capacity limit.