Carleton UNIVERSITY
Canada's Capital University

Policy Name:	Capital Debt Policy
Originating/Responsible Department:	Office of the Vice-President (Finance & Administration)
Approval Authority:	Board of Governors
Date of Original Policy:	April 2008
Last Updated:	January 2019
Mandatory Revision Date:	January 2024
Contact:	Vice-President (Finance and Administration)

Policy:

Pursuant to the *Carleton University Act* and the General Operating By-Law of the University, the University's position regarding capital debt is as follows;

1. Capital borrowing will be undertaken by the administration only following approval of a capital project by the Board of Governors. Such approval will include the total cost of the project, the source(s) of funds to repay the debt, and the expected repayment period.
2. Individual Faculties or Departments are not legal entities and as such cannot enter into loan agreements.
3. The University will endeavour to enter into the most advantageous financing available taking into account such criteria as available term, cost of funds, repayment options, and security required. This analysis may include the possibility of financing projects from internal cash flows. The final financing proposal must be approved the Board of Governors.
4. The University should not obtain all its financing from one lender, to avoid undue influence of any one source.
5. Loans shall either be amortized with annual principal payments or alternatively a sinking fund shall be established for non amortizing loans. The objective of the sinking fund is to accumulate sufficient capital to repay the loan at or before maturity. As the sinking fund will have a long term profile, the University will usually invest these funds with the pooled endowment investments.
6. No borrowing, expenditure, or liability may be incurred which has the effect of involving or impairing any endowment of the University
7. In any given year, the following ratios must ordinarily be met in order to incur additional capital debt.

These ratios are used by other Universities and rating agencies. The total debt figure will include all externally and internally financed debt fewer funds restricted by the Board of Governors and deposited into a sinking fund.

A. Debt to Full Time Equivalent Student (FTE) < $11,800 (as at May 2018)
   The $11,800 figure will indexed by CPI every May 1.

B. Debt Service Coverage Ratio (DSCR) > 2.5
   DSCR= surplus (deficit) + depreciation expense + interest expense divided by annual debt service charge (i.e. interest and principal).

   The annual debt service charge includes those payments legally required and excludes any special repayments made at the Universities discretion.

Purpose:
The purpose is to provide a framework for undertaking external debt, and to establish limits on long term debt outstanding.

Scope:
This policy applies to all capital borrowing by the University.

Procedure:
The policy is applied at the time capital projects are being contemplated (overall borrowing limits) and at the capital budget approval stage (securing the optimal external financing).

Contacts:
Vice-President (Finance and Administration)
Assistant Vice-President, Financial Services
University Secretary

Links to related Policies:

Capital Planning Policy (Note: to be added at a later date)