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:	March 2022
Mandatory Revision Date:	March 2027
Contact:	Vice-President (Finance & Administration)

Purpose:

The purpose of this Policy is to define the responsibilities for the approval of capital debt, guidelines for the maximum amount, and outline the system of accountability. The Policy is guided by the following principles:

- A holistic view of the University's capital debt, which includes external debt and internal advances for capital expenditures.
- The University's desire to utilize a mix of funding sources to finance capital projects including internal resources, philanthropy, external debt and grants.
- To allow flexibility to support the Board of Governors decision making.
- The debt be managed on the basis most suited to the project(s) being financed in terms of duration, payment affordability and risk tolerance with a goal of achieving the lowest cost of borrowing.
- Capital debt is a resource that can advance and support the academic mission, the strategic plan and the overall sustainability of the University.

Scope:

This Policy applies to all external capital borrowing and internal advances for expenditures in excess of $5 million obtained by any means. External debt includes all funds borrowed from third party lenders while internal advances relate to projects funded by the University from its projected cash balances over time.

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. External capital borrowing and internal advance over $5 million will be undertaken by the administration only following approval by the Board of Governors. Such approval will

include the total projected cost of the project (s), 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. On an annual basis, included in the Financial Report to the Board of Governors, administration will review and report all external capital borrowing and internal advances for capital expenditures. The review will include principal amounts outstanding, status of any sinking funds, lending rates and projected retirement dates.
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. The University shall use the Policy limit and ratio as guidelines to determine the University's maximum amount of outstanding debt by measuring the impact of outstanding debt on the University's financial position. The ratio and limit are not intended to track a specific rating, but rather to ensure the maintenance of the University's long-term financial sustainability. These measures shall be subject to review by the University on a regular basis.

   A. Maximum Debt Per Full Time Equivalent Students (FTE) is $12,595 per student (as at May 2021).

      Maximum Total Debt = Total FTE's X Maximum Debt Per FTE

      The metric measures the amount of total capital debt in relation to total FTE students. It is intended as a measure of the financial capacity of the institution which suggests that the larger the student population, the more debt capacity available. 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 May 1.

      The total debt figure includes all externally and internally financed debt, less funds restricted by the Board of Governors and deposited into a sinking fund.

B. Debt Service Coverage Ratio (DSCR) > 2.5

$$\text{DSCR} = \frac{\text{Excess of revenue over expenses + amortization expense + interest expense}}{\text{Annual debt service charge}}$$

The DSCR ratio is a measure of debt-service affordability. It compares the financial results for the year, adjusted for amortization expense and interest payment, to external debt service charges.

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

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) in line with the Capital Planning Policy. The Finance Committee and Building Program Committee of the Board of Governors will oversee the implementation of this Policy through regular reporting from the Vice-President (Finance & Administration).

Roles and Responsibilities:

The administration shall report through the Finance Committee as part of the annual Financial Report to the Board of Governors on:

- Actual and projected debt levels;
- The amount of debt that is on a floating rate basis and on a fixed rate basis;
- The term of each loan;
- The notional amount of sinking funds that have been set aside for the purpose of principal repayment;
- Status of the debt measure and ratio.

Contacts:

Vice-President (Finance & Administration)
Assistant Vice-President, Financial Services
University Secretary

Links to related Policies:

Capital Planning Policy