



<b>SUBJECT</b>	Annual Debt Report as at June 30, 2021
<b>SUBMITTED TO</b>	Board of Governors
<b>MEETING DATE</b>	September 8, 2021
<b>SESSION CLASSIFICATION</b>	Recommended session criteria from Board Meetings Policy: OPEN
<b>REQUEST</b>	For information only - No action requested
<b>LEAD EXECUTIVE</b>	Peter Smailes, Vice-President Finance & Operations
<b>SUPPORTED BY</b>	Yale Loh, Treasurer

**PRIOR SUBMISSIONS**

The subject matter of this submission was most recently considered by the Board of Governors on [September 9, 2020](#) OPEN SESSION.

**EXECUTIVE SUMMARY**

In accordance with the January 2004 Board-approved Debt Issuance and Application guidelines and the July 2009 Board-established ceiling on centrally funded debt guideline, this briefing summarizes key borrowing initiatives and other relevant information pertaining to debt and debt issuance as at June 30, 2021 together with projections for upcoming years. This report is submitted annually, most recently in September 2020.

**UBC Key Ratios<sup>1</sup>:**

	Target	FY2021 (Actual)	FY2022 (Forecast)	FY2023 (Forecast)	FY2024 (Forecast)	FY2025 (Forecast)
<b>External Debt Ratios<sup>2</sup></b>						
Debt Burden	< 5.5%	0.80%	0.70%	0.66%	0.62%	0.60%
Debt Service Coverage	> 1.1x	10.03x	10.52x	8.45x	8.82x	9.09x
Financial Leverage <sup>3</sup>	>3.0x	5.90x	5.63x	5.75x	5.14x	4.63x
<b>Internal Debt Ratio</b>						
Operating Debt Burden	< 3.0%	1.23%	1.39%	1.42%	1.39%	1.90%
<b>Total Debt Ratios<sup>4</sup></b>						
Total Debt Burden	< 5.5%	3.27%	3.52%	4.02%	3.95%	4.80%
Debt Service Coverage	>1.1x	2.45x	2.09x	1.38x	1.38x	1.14x

In line with the Debt Issuance and Application Guidelines (Appendix i), UBC maintains target ratios for external, internal and total debt. While the credit rating agencies typically only focus on external debt ratios, it is instructive to also consider internal debt and total debt metrics to understand the sustainability of UBC's financial leverage and how UBC benefits from its significant underlying surplus working capital. Total debt metrics illustrate the impact on ratios if UBC sought external funding for all internally financed projects.

<sup>1</sup> Refer to Appendix i for definitions and calculation methodology of Key Ratios

<sup>2</sup> External ratios are based on external debt only

<sup>3</sup> Financial Leverage (spendable cash and investments to debt outstanding) aligns with Moody's calculation methodology. The internal target is consistent with Moody's target for highly rated public universities.

<sup>4</sup> Total debt ratios include both external debt and internal debt financed by working capital

**For FY21, the University has met all of its key ratio targets as set out by the Board.** Current projections suggest that total debt levels will peak by the end of FY25 due to internal loans to fund the Integrated Renewal Project (IRP) and new student residences. This will cause the total debt burden to rise to 4.80% in FY25, close to the upper 5.5% limit set by the Board.

In addition, the total debt service coverage ratio decreases to 1.14x in FY25 versus a >1.1x target, driven by the high principal and interest payments for IRP upgrades as IRP loans are set to be repaid over a 10-year period. The impacted ratios are expected to recover rapidly in subsequent years as the loans are repaid.

Debt burden by faculty / business unit (Appendix iii) is also assessed to determine each unit's debt capacity. Treasury is satisfied that the faculties with debt burden above 3.0% will be able to repay their internal loans. While those faculties have exceeded the 3.0% guideline, the absolute size of the remaining internal loan is not large and manageable.

**Liquidity is projected to reach a low of \$505m in August 2024** (see [September 2021 Liquidity Update](#)). Although liquidity is forecasted to be above the minimum liquidity target of \$300m, there will be continued pressure on liquidity in the near term related to COVID-19 impacts. As a result, UBC will have to assess its ability to fund all proposed capital projects within the initial timeline on a project-by-project basis.

Although students and university operations are expected to return to campus in September, there is still near-term pressure amid the COVID-19 pandemic and the uncertainty it presents on the long-term financial impact of the university. Universities globally continue to face similar challenges, particularly with international student enrolment and ancillary revenue-generating segments. With that being said, Canadian universities typically have a more diversified funding mix and are strongly supported by provincial funding. Standard & Poor's has again adopted a negative outlook on the higher education sector globally for this year. While Moody's notes that Canadian universities enjoy strong Provincial support and maintain flexibility to mitigate revenue shortfalls in the short term, the mitigation measures could begin to impact a university's reputation and long-term strategy over time, leading to negative credit pressure if enacted over a multiyear horizon. To date, there has not been any ratings action on any individual universities resulting from the financial impact of the COVID-19 pandemic. **UBC maintains its Aa1 and AA+ credit ratings from Moody's and Standard & Poor's, respectively.**

UBC has been and will continue to maintain close communications with both Moody's and Standard & Poor's to ensure that in addition to financial information and forecasts, updates on broader impacts of COVID-19 and corresponding mitigation efforts are provided and well understood.

The University's borrowing and internal lending processes are consistent with "internal bank" best practices employed at major US universities such as Harvard and University of California. UBC and the University of Toronto have the highest credit ratings of any universities in the country.

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## APPENDICES

1. Annual Report on Debt Issuance and Application
2. Existing External Debt
3. Internal Loan Summary & Debt Burden by Faculty / Business Unit
4. Internal Loan List

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## ANNUAL REPORT ON DEBT ISSUANCE & APPLICATION

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In accordance with the January 2004 Board approved Debt Issuance and Application guidelines and the July 2009 Board established ceiling on centrally funded debt guideline, this report summarizes key borrowing initiatives and other relevant information pertaining to debt and debt issuance including:

- a. listing of all University and related entity borrowing including original principal, term, interest rate, and current status of principal or sinking fund repayment
- b. trend analysis of key ratios, weighted average cost of debt service, and relevant projections
- c. listing of projects dependent upon debt,
- d. review of other university best practices, and
- e. credit rating status.

The guidelines also establish an upper limit for the University's aggregate borrowing based upon the application of the following criteria:

- 1) *Any long-term University borrowing from an external third party to replenish working capital can neither result in an increase to the University's debt burden ratio, such that the projected rate over time would exceed 5.5%, nor shall such a borrowing provoke a downgrade of any one of the University's credit ratings.*
- 2) *Internal long-term loans for projects financed from working capital must further contemplate the prospective impact upon long-term debt such that any third-party borrowing required to replenish working capital, as a result of approvals of such projects, shall not result in a debt burden ratio exceeding 5.5%.*
- 3) *Centrally or faculty funded debt service as a percentage of operating revenues should not exceed 3.0%.*

This submission follows the outline as specified in the guidelines referenced above.

### **a) Listing of all University and Related Entity Borrowing**

As at June 30, 2021 the University had \$350.4m outstanding principal on external long-term debt, net of \$30m of sinking funds, with a weighted average cost of 5.72% (see Appendix ii).

The composition of the debt is as follows: \$250m debenture ("bond") issue debt, \$140.3m Provincial fiscal agency loans, \$1.0m CMHC mortgages less \$39m sinking funds related to Provincial fiscal agency loans.

The University has internally financed a further \$1,093.7m of long-term debt via the use of the Student Housing Finance Endowment (\$283.7m), an additional Endowment Borrowing for Orchard Commons (\$93.6m), and the use excess cash reserves (\$716.4m).

## b) Key Borrowing Ratios and Weighted Average Cost of Debt Service

The following key ratios measure debt burden, debt coverage and viability:

- i. **The Debt Burden Ratio** (defined as debt service payments as a percentage of total revenues) determines practical debt capacity and is limited to 5.5%. The University's debentures are secured by a general pledge of all University revenues and therefore annual debt service as a percentage of total revenues is one of the key benchmark ratios.
- ii. **The Debt Service Coverage Ratio** determines the financial comfort level with which the University can meet debt service payments and is defined as operating cashflow divided by debt service payments. A target ratio of 1.1x indicates the University should have at least 1.1x annual debt service payments in operating cashflow. For example, if the University has \$50m in debt service payments annually, total operating revenues less expenses before debt service should be \$55m.
- iii. **The Financial Leverage** calculation measures the spendable cash and investments to debt outstanding. A target ratio of 3.0x indicates the University should have at a minimum three times available cash reserves and investments compared to total debt. UBC's calculation of expendable resources is based on Moody's methodology, which includes the University's operating cash and investments as well as unrestricted endowment balances and sinking funds in the numerator of the ratio. Financial Leverage highlights the ability of a university to repay bondholders from wealth that can be accessed over time or for a specific purpose. This measure is of particular importance for universities with non-amortizing debt structures that do not intend to repay debt from annual cash flow.

### UBC Key Ratios:

	Target	FY2021 (Actual)	FY2022 (Forecast)	FY2023 (Forecast)	FY2024 (Forecast)	FY2025 (Forecast)
<b>External Debt Ratios<sup>1</sup></b>						
Debt Burden	< 5.5%	0.80%	0.70%	0.66%	0.62%	0.60%
Debt Service Coverage	> 1.1x	10.03x	10.52x	8.45x	8.82x	9.09x
Financial Leverage <sup>2</sup>	>3.0x	5.90x	5.63x	5.75x	5.14x	4.63x
<b>Internal Debt Ratio</b>						
Operating Debt Burden	< 3.0%	1.23%	1.39%	1.42%	1.39%	1.90%
<b>Total Debt Ratios<sup>3</sup></b>						
Total Debt Burden	< 5.5%	3.27%	3.52%	4.02%	3.95%	4.80%
Debt Service Coverage	>1.1x	2.45x	2.09x	1.38x	1.38x	1.14x

<sup>1</sup> External ratios are based on external debt only

<sup>2</sup> Financial Leverage aligns with Moody's calculation methodology. The internal target is consistent with Moody's target for highly rated public universities.

<sup>3</sup> Total debt ratios include both external debt and internal debt financed by working capital

It should be noted that the total debt ratios are meant to demonstrate the impact should the University seek external funding for all internally financed projects. The total debt ratios are also based on an internal financing rate of 5.75%, which is significantly higher than current external borrowing rates.

### **c) Projects Dependent Upon Debt**

Current projections show total debt peaking in FY25 at \$2.64B. The total debt burden ratio in FY25 is forecasted at 4.80% and close to the 5.5% target. This will be monitored closely in relation to revenue projections as the University proceeds with its Capital Plan. The Student Housing GBE has been halted due to the COVID-19 pandemic; however, should it proceed in the future, it is expected that internal loans will be refinanced externally, and the debt ratio will decrease significantly.

The University has a Capital Plan with debt financing and working capital contributing to the funding of many projects. Currently, \$756m of the University's capital is tied up in funding capital projects (including outstanding construction deficits).

Liquidity is projected to reach a low of \$505m in August 2024 (See separate Liquidity Report for September 2021 BoG). As a result of the financial impacts related to COVID-19, UBC will have to assess its ability to fund all proposed capital projects within the initial timeline on a project-by-project basis.

### **d) Other University Best Practices**

While UBC's debt profile and guidelines are consistent with larger Canadian universities, we are increasingly focused on US university best practices to advance our debt framework. UBC's borrowing and internal lending processes are consistent with "internal bank" best practices employed at major US universities such as Harvard and University of California.

### **e) Credit Rating Status**

The University's credit ratings were reaffirmed at Aa1 and AA+ from Moody's (December 2020) and Standard & Poor's (March 2021) respectively. UBC, along with UofT have the highest credit ratings of any university in the country.

## Appendix 2

**Existing External Debt***As of June 30, 2021 (in \$ 000s)*

Project	Principal Advanced	Year of Advance	Term (yr)	Interest Rate	Outstanding Principal <sup>1</sup>
<b>CMHC Loans:</b>					
Gage #1	5,170	1972	50	7.88%	578
Gage #2	3,307	1973	50	7.25%	452
	<u>8,477</u>				<u>1,030</u>
<b>Ministry of Finance Loans:</b>					
BCCD-11	125,000	2007	30	4.70%	84,137
BCCD-39 (Skeena)	15,282	2020	30	2.95%	15,282
	<u>140,282</u>				<u>99,418</u>
<b>UBC Bond Issuances:</b>					
Debenture Issuance #1	125,000	2001	30	6.65%	125,000
Debenture Issuance #2	125,000	2005	30	5.79%	125,000
	<u>250,000</u>				<u>250,000</u>
<b>Weighted Average Cost of Debt</b>				<b>5.72%</b>	
<b>Total Existing External Debt</b>					<b>350,448</b>

*(1) Net of Sinking Funds or Principal Repayments*

## Internal Loan Summary

as at June 30, 2021

Borrowing Faculty / Unit	Outstanding Principal (\$)
	June 30, 2021
SHCS	696,178,708
Central	549,981,162
Other Admin Units	74,407,134
Pharmacy	25,973,158
Medicine	24,375,080
Vantage College	22,890,804
UBC Okanagan	13,728,597
Science	11,902,751
Sauder	9,707,050
Dentistry	7,331,987
Arts	5,181,080
Education	4,094,735
Applied Science	133,184
Law	96,797
<b>Total</b>	<b>1,445,982,227</b>

## Debt Burden Ratio by Faculty / Business Unit

Borrower (in millions)	Loan Balance	Debt Service		Debt Burden Ratio
	June 2021	FY22	Budget	
SHCS	679.8	41.2	200.4	20.55%
Central	392.1	30.9	294.5	10.49%
Vantage College	22.9	1.7	16.9	10.08%
Building Operations	64.7	5.4	85.8	6.32%
Dentistry	7.3	1.3	28.9	4.39%
Pharmaceutical Sciences	13.8	0.6	25.3	2.46%
Development Office	2.1	0.4	29.6	1.33%
Information Technology	7.5	1.2	91.2	1.29%
UBC Okanagan	6.8	0.5	45.8	1.05%
Science	11.9	1.3	166.9	0.76%
Education	4.1	0.3	53.6	0.58%
Arts	5.2	0.4	198.1	0.20%
Medicine	2.6	0.3	242.9	0.13%
Law	0.1	0.0	16.7	0.04%
Sauder	0.0	0.0	100.9	0.00%
<b>Target</b>				<b>less than 3%</b>

## Appendix 4

## Internal Loan List

as at June 30, 2021

Internal Loan Name	Interest Rate	Issue Date	Maturity Date	Loan Amount (\$)	Remaining Term (yr)	Normal Annual Payment (\$)	Outstanding Principal (\$) June 30, 2021
Engineering Student Centre	4.63%	Sep 30, 2015	Sep 30, 2021	1,271,155	0	230,370	133,184
Childcare	5.75%	Oct 31, 2011	Oct 31, 2021	3,590,000	0	469,750	154,772
Alumni Centre AMS - Development Office	5.00%	May 31, 2015	Apr 30, 2022	9,000,000	0	262,780	179,767
UBCO Student Union Building Soft Costs Loan	5.75%	Jan 31, 2009	Nov 30, 2022	650,000	1	66,524	103,098
ECOTrek Loan 2005	7.50%	Mar 31, 2004	Aug 31, 2024	18,550,000	3	1,633,560	4,551,761
UBCO Food Services 2010	5.75%	Mar 31, 2010	Mar 31, 2025	1,800,000	3	177,684	773,239
Alumni Centre - Central	5.50%	Apr 30, 2015	Apr 30, 2025	1,000,000	3	129,436	447,568
Law Building Fundraising Loan	2.50%	Aug 31, 2012	Mar 31, 2026	3,576,997	4	7,550	96,797
UBCO Monashee Residence	6.25%	Apr 1, 2006	Apr 1, 2026	1,406,000	4	122,388	619,824
ICORD (Central)	6.75%	Jul 1, 2006	Jul 1, 2026	6,450,000	5	511,394	2,456,506
Aquatic Ecosystem Research Lab (AERL) - VP Academic	6.25%	Oct 31, 2006	Oct 31, 2026	2,990,000	5	265,997	1,297,783
Dentistry Clinic	6.25%	Apr 30, 2007	Apr 30, 2027	19,500,000	5	1,266,208	7,331,987
Orchard Commons Open Kitchen	5.50%	Oct 31, 2020	Jul 31, 2027	1,832,376	6	324,188	1,679,424
Housing Renovations (13.8 million)	7.20%	Jan 1, 2003	Jan 1, 2028	13,800,000	6	1,167,552	7,031,707
Housing Renovations (1.3 million)	7.20%	Feb 28, 2003	Feb 28, 2028	1,300,000	6	109,992	662,319
Housing Korea House	7.20%	Feb 28, 2003	Feb 28, 2028	5,400,000	6	456,864	2,751,506
Agassiz Avian Barn	6.00%	Mar 31, 2008	Mar 31, 2028	780,175	6	67,068	371,530
Agassiz Relocation Barn	6.00%	Mar 31, 2008	Mar 31, 2028	1,632,800	6	140,376	777,558
Bioenergy Research and Demonstration Nexterra	5.75%	Mar 31, 2013	Mar 31, 2028	9,550,000	6	808,339	4,534,329
Stem Cell Lab	5.50%	Mar 31, 2018	Mar 31, 2028	2,636,000	6	341,194	1,928,503
IT April 1, 2018 pre-implimentaion Loan (Capital)	5.50%	Apr 1, 2018	Mar 31, 2028	1,225,301	6	158,599	26,646,176
IT April 1, 2018 pre-implimentaion Loan (Operating Funded)	5.50%	Apr 1, 2018	Mar 31, 2028	36,421,677	6	4,714,292	896,433
Aquatic Ecosystem Research Lab (AERL) - CIS	6.00%	Oct 31, 2008	Oct 31, 2028	690,000	7	60,157	373,565
Tec De Monterrey Place Vanier House Loan	5.75%	Mar 31, 2004	Mar 31, 2029	7,332,000	7	644,152	4,250,134
Life Sciences Centre	5.75%	Mar 31, 2009	Mar 31, 2029	15,600,000	7	1,261,876	7,985,640
ICORD 2009 (Medicine loan)	6.00%	Oct 31, 2008	Mar 31, 2029	1,062,500	7	91,601	568,824
IT Learning Technology Enviornment Renewal (LTE)-Capital Loan	5.50%	Apr 1, 2019	Mar 31, 2029	2,583,845	7	334,444	2,116,720
IT Learning Technology Enviornment Renewal (LTE)-Operating Loan	5.50%	Apr 1, 2019	Mar 31, 2029	1,629,642	7	210,935	1,335,024
Stem Cell Biomedical Research Laboratory Renovation Phase 2	5.50%	Apr 1, 2019	Mar 31, 2029	1,122,687	7	145,317	919,720



Internal Loan Name	Interest Rate	Issue Date	Maturity Date	Loan Amount (\$)	Remaining Term (yr)	Normal Annual Payment (\$)	Outstanding Principal (\$) June 30, 2021
Bookstore Consolidated Loan - Renovation Phase 1 and LOC Refinancing	5.75%	Apr 30, 2014	Apr 30, 2029	7,650,000	7	756,984	4,790,588
Bookstore Consolidated Loan - LOC portion	5.75%	Jul 1, 2014	Apr 30, 2029	2,200,000	7	218,724	1,384,212
IT Customer Relationship Management (CRM) - Capital Loan	5.50%	Jun 30, 2019	Jun 30, 2029	3,007,390	8	389,266	2,527,389
IT Customer Relationship Management (CRM) - Operating Loan	5.50%	Jun 30, 2019	Jun 30, 2029	1,866,029	8	241,532	1,568,198
Bookstore Expansion and Renovation Phase 2	5.75%	Dec 31, 2014	Dec 31, 2029	1,000,000	8	98,712	666,294
ECOTrek Loan 2006	7.25%	Mar 31, 2006	Mar 31, 2030	9,450,000	8	815,352	5,319,389
St. John's College Loan 1	5.80%	Mar 31, 2010	Mar 31, 2030	4,698,000	8	392,640	2,994,153
Parking Facilities and Seismic Upgrades Loan (Tranch 1)	5.75%	Apr 1, 2015	Apr 30, 2030	6,466,000	8	638,273	4,439,005
Cleanroom Upgrade at Stewart Blusson Quantum Matter Institute (QMI)	5.50%	Dec 31, 2020	Dec 31, 2030	900,000	9	116,493	865,517
ECOTrek Loan 2007	6.25%	Mar 31, 2007	Mar 31, 2031	2,850,000	9	225,960	1,659,134
Parking Facilities and Seismic Upgrades Loan (Tranch 2)	5.75%	Mar 31, 2016	Mar 31, 2031	1,820,000	9	179,656	1,347,199
IT PRISM 1 Loan	5.50%	Apr 1, 2021	Mar 31, 2031	7,593,962	9	982,935	7,449,458
IT EDI Loan	5.50%	Apr 1, 2021	Mar 31, 2031	4,341,000	9	562,431	4,258,396
IT IRP - Blanace of HR/ Fin	5.50%	Apr 1, 2021	Mar 31, 2031	65,200,000	9	8,439,255	63,959,319
Centre for Comparative Medicine (Central)	5.75%	Aug 31, 2011	Aug 31, 2031	3,580,500	10	298,080	2,306,259
CIRS 2	5.75%	Sep 30, 2011	Sep 30, 2031	7,000,000	10	582,761	4,536,196
Swing Space Bldg 1	6.25%	Jan 1, 2006	Oct 31, 2031	10,500,000	10	622,292	4,745,561
Swing Space Bldg 2	6.25%	Mar 31, 2012	Oct 31, 2031	1,591,884	10	139,456	1,063,484
Sauder School of Business 1- TREK	5.75%	Dec 31, 2011	Dec 31, 2031	7,862,000	10	654,524	5,186,196
ECOTrek Loan 2008	6.00%	Mar 31, 2008	Mar 31, 2032	1,100,000	10	85,320	679,970
Eugene King Endowment Ladha	6.25%	Sep 1, 2006	Sep 1, 2032	201,000	11	15,000	118,891
Modified Barrier Facility Medicine loan	5.75%	Oct 31, 2012	Oct 31, 2032	2,089,000	11	173,915	1,456,561
Rec Centre in Old SUB	5.75%	Feb 28, 2018	Feb 28, 2033	4,800,000	11	473,819	4,051,194
ECOTrek Loan 2009	5.75%	Mar 31, 2009	Mar 31, 2033	2,050,000	11	155,532	1,336,520
Barber, Irving Learning Centre	6.00%	Mar 31, 2008	Mar 31, 2033	20,000,000	11	1,546,320	13,015,474
International House	5.75%	Mar 31, 2018	Mar 31, 2033	2,000,000	11	197,425	1,696,528
Marine Drive Phase 1	6.25%	Mar 31, 2006	Jul 31, 2033	38,240,000	12	2,825,400	25,461,040
UBCO Student Union Building - JPM Space	5.75%	Jul 31, 2009	Sep 30, 2033	3,000,000	12	224,067	2,012,889
QMI Overage (Ampel Lab Reno) Loan	5.75%	Dec 31, 2018	Dec 31, 2033	675,000	12	66,631	597,892
Athletics Refinancing	5.75%	Mar 31, 2014	Mar 31, 2034	10,220,040	12	849,170	7,724,339
Museum of Anthropology Renewal	5.60%	Mar 31, 2010	Mar 31, 2035	1,375,000	13	41,000	480,479
UBCO Geoexchange	5.75%	Mar 31, 2010	Mar 31, 2035	3,036,000	13	225,984	2,163,172
Graduate Research Commons Walter C. Koerner Library Inter-related Projects	5.75%	Mar 31, 2020	Mar 31, 2035	6,009	13	555,865	5,362,181
Strangway Building	6.25%	Jan 1, 2006	Jul 30, 2035	21,000,000	14	1,538,581	14,701,983
CERC-Chem Bio Central	7.00%	Mar 31, 2006	Mar 31, 2036	8,700,000	14	441,672	4,109,941
Ladha Faculty of Science	6.25%	Nov 1, 2006	Nov 1, 2036	845,000	15	63,002	454,840
UBC Renew 2	6.25%	Dec 31, 2006	Mar 31, 2037	22,257,448	15	1,412,054	14,028,239
Thunderbird Parkade	5.75%	Mar 31, 2007	Mar 31, 2037	21,500,000	15	1,428,132	15,367,957
UBCO Student Housing 1	6.25%	Mar 31, 2007	Mar 31, 2037	18,850,000	15	1,392,756	14,561,502
Marine Drive Housing Phase 2	5.25%	Mar 31, 2008	Mar 31, 2037	36,300,000	15	2,439,804	27,398,810

Internal Loan Name	Interest Rate	Issue Date	Maturity Date	Loan Amount (\$)	Remaining Term (yr)	Normal Annual Payment (\$)	Outstanding Principal (\$) June 30, 2021
UBC Renew 3	6.00%	Mar 31, 2008	Mar 31, 2038	7,000,000	16	508,542	5,328,131
Earth System Science Building	5.75%	Mar 31, 2013	Mar 31, 2038	11,557,280	16	889,645	6,787,469
Rederivation	5.75%	Oct 31, 2008	Oct 31, 2038	3,448,000	17	241,464	2,645,604
UBC Renew 4	5.75%	Mar 31, 2009	Mar 31, 2039	14,000,000	17	990,027	10,923,782
Marine Drive Housing Ph2 2009	5.35%	Mar 31, 2009	Mar 31, 2039	50,000,000	17	3,303,240	39,748,792
UBCO Student Housing 2	5.75%	Mar 31, 2009	Mar 31, 2039	16,991,000	17	1,170,996	13,672,827
UBCO University Ctr and Meekison Student Ctr 1	5.75%	Mar 31, 2010	Mar 31, 2040	25,130,000	18	1,731,912	20,072,124
Beaty Biodiversity - Central's loan	5.75%	Mar 31, 2010	Mar 31, 2040	2,000,000	18	141,432	1,609,431
Marine Drive Housing Ph2 2010	5.60%	Mar 31, 2010	Mar 31, 2040	10,000,000	18	678,432	8,244,994
UBCO Student Housing 3	5.75%	Mar 31, 2010	Mar 31, 2040	24,750,000	18	1,705,728	20,488,805
Tutt Land Purchase	5.75%	Sep 30, 2010	Sep 30, 2040	10,000,000	19	630,201	7,412,416
UBCO Arts and Sciences Phase 2	5.75%	Sep 30, 2010	Sep 30, 2040	5,102,000	19	351,624	4,135,762
UBCO Student Housing 3B	5.75%	Nov 30, 2010	Nov 30, 2040	8,200,000	19	565,128	6,908,822
Pharmacy Fundraising LT Loan Refinanced	5.75%	Nov 30, 2012	Dec 31, 2040	26,237,000	19	1,167,119	13,826,180
IT IRP \$120M Interest Free Loan	0.00%	Apr 1, 2021	Mar 30, 2041	120,000,000	19	-	120,000,000
UBC Renew 5	5.75%	Mar 31, 2011	Mar 31, 2041	9,400,000	19	664,733	7,781,613
UBCO University Ctr and Meekison Student Ctr 2	5.75%	Apr 1, 2011	Apr 1, 2041	2,400,000	19	165,404	1,973,215
Orchard (25 year loan)	6.15%	Aug 1, 2016	Aug 1, 2041	40,000,000	20	variable	36,870,415
Law Building	5.75%	Aug 31, 2011	Aug 31, 2041	16,176,000	20	1,114,822	13,451,311
Centre for Comparative Medicine (Trek Endowment)	5.75%	Aug 31, 2011	Aug 31, 2041	31,800,000	20	2,191,596	26,443,601
CIRS 1	5.75%	Sep 30, 2011	Sep 30, 2041	3,809,000	20	262,510	3,174,463
Totem In Fill	5.75%	Sep 30, 2011	Sep 30, 2041	38,000,000	20	2,618,895	32,686,458
UBCO Engineering Management	5.75%	Sep 30, 2011	Sep 30, 2041	1,100,000	20	75,810	916,751
UBCO Student Housing 4	5.75%	Sep 30, 2011	Sep 30, 2041	9,966,000	20	686,840	8,572,454
Hot Water Conversion Phase 1 Refinancing	4.25%	Sep 30, 2014	Mar 31, 2042	2,051,361	20	146,425	1,793,897
Hot Water Conversion Phase 2	5.75%	Mar 31, 2013	Mar 31, 2042	9,750,000	20	680,967	8,342,568
Hot Water Conversion Phase 3	5.75%	Mar 31, 2014	Mar 31, 2042	4,300,000	20	304,632	3,732,146
Hot Water Conversion Phase 4	5.75%	Mar 31, 2015	Mar 31, 2042	22,000,000	20	1,516,203	19,885,065
QMI (CERC Replacement Loan)	5.75%	Apr 30, 2017	Apr 30, 2042	1,723,000	20	128,254	1,574,610
Sauder School of Business 1 - MBA Fees	5.75%	Sep 30, 2012	Sep 30, 2042	4,560,000	21	269,729	4,244,312
Data Centre	5.75%	Oct 31, 2012	Oct 31, 2042	6,500,000	21	447,978	5,568,610
Modified Barrier Endowment	5.75%	Oct 31, 2012	Oct 31, 2042	11,220,000	21	773,280	9,612,276
Sports Medicine (Sports Med)	5.75%	Oct 31, 2017	Oct 31, 2042	715,551	21	49,409	614,195
Pharmacy CDRD	5.75%	Nov 30, 2012	Nov 30, 2042	14,150,000	21	975,194	12,146,977
Ponderosa Commons Phase 1 - Working Capital Loan	5.75%	Sep 30, 2013	Sep 30, 2043	14,880,000	22	1,003,962	13,113,917
Ponderosa Commons Phase 1 - SHFE	5.75%	Sep 30, 2013	Sep 30, 2043	65,407,000	22	4,507,738	58,819,100
UBCO Teaching and Learning Centre	5.75%	Jan 31, 2019	Jan 31, 2044	7,776,061	22	583,068	6,896,736
Iona Building Purchase - Arts Master Program	5.75%	Jun 30, 2014	Jun 30, 2044	5,100,000	23	364,035	4,700,600
Iona Building Purchase - Central Operating Loan	5.75%	Jun 30, 2014	Jun 30, 2044	8,800,000	23	606,481	7,831,185
Iona Building Purchase - Central Master Program	5.75%	Jun 30, 2014	Jun 30, 2044	3,200,000	23	228,414	2,949,394

Internal Loan Name	Interest Rate	Issue Date	Maturity Date	Loan Amount (\$)	Remaining Term (yr)	Normal Annual Payment (\$)	Outstanding Principal (\$) June 30, 2021
Iona Building Purchase - SHHS	5.75%	Jun 30, 2014	Jun 30, 2044	2,000,000	23	137,836	1,825,705
University Blvd Parkade at MacInnis Field	5.75%	Jun 30, 2019	Jun 30, 2044	11,235,000	23	836,291	10,798,612
Iona Building Purchase - Central Trek	5.75%	Apr 1, 2015	Mar 31, 2045	3,000,000	23	206,755	2,711,598
Ponderosa Commons Phase 2 Part 1 - SHFE	5.75%	Aug 31, 2015	Aug 31, 2045	30,280,000	24	2,086,846	28,247,276
Alumni Centre Auxillary - Development Office	5.75%	Oct 31, 2015	Oct 31, 2045	2,117,000	24	145,900	1,935,630
Ponderosa Commons Phase 2 Part 2 - SHFE	5.75%	Dec 31, 2015	Dec 31, 2045	25,187,000	24	1,735,845	23,634,279
Ponderosa Commons Phase 2 - Education	5.75%	Feb 29, 2016	Feb 28, 2046	4,500,000	24	310,132	4,094,735
Ponderosa Commons Phase 2 - Central	5.75%	Feb 29, 2016	Feb 28, 2046	6,037,000	24	416,060	5,289,578
Hot Water Conversion Phase 5	5.75%	Mar 31, 2016	Mar 31, 2046	22,700,000	24	1,564,445	20,920,123
Ponderosa Commons Phase 2 - Working Capital Loan	5.75%	Mar 31, 2016	Mar 31, 2046	4,745,000	24	327,017	2,192,284
Orchard (Residual Loan)	5.75%	Jul 31, 2016	Jul 31, 2046	1,787,605	25	123,199	1,694,123
Vantage College	5.75%	Jul 31, 2016	Jul 31, 2046	24,685,895	25	1,701,310	22,890,804
Orchard (30 year Loan)	6.15%	Aug 1, 2016	Aug 1, 2046	60,000,000	25	variable	56,759,407
Aquatic Centre (Athletics 5M Loan)	2.50%	Jan 31, 2017	Jan 31, 2047	5,000,000	25	357,937	5,146,135
Aquatic Centre (Athletics)	5.75%	Jan 31, 2017	Jan 31, 2047	6,290,000	25	433,496	6,192,557
Hot Water Conversion Phase 6	5.75%	Mar 31, 2017	Mar 31, 2047	5,900,000	25	406,618	5,536,278
QMI Central	5.75%	Apr 30, 2017	Apr 30, 2047	11,000,000	25	758,101	10,336,780
QMI Central Fundraising	5.75%	Apr 30, 2017	Apr 30, 2047	1,600,000	25	110,269	1,503,532
QMI Science Fundraising (Uncommitted)	5.75%	Apr 30, 2017	Apr 30, 2047	1,600,000	25	110,269	1,503,532
Orchard Supplemental Loan	5.75%	Apr 30, 2017	Apr 30, 2047	2,208,530	25	152,208	286,247
Brock Commons	5.75%	Jun 30, 2017	Jun 30, 2047	47,073,000	26	3,244,191	45,274,838
Totem In-Fill 2	5.75%	Jul 31, 2017	Jul 31, 2047	30,200,000	26	2,081,332	29,084,004
Sauder School of Business 2 - Undergrad	5.75%	Sep 30, 2012	Sep 30, 2047	16,340,000	26	1,805,788	5,462,738
Innovation Drive Building Purchase	5.75%	Dec 31, 2017	Dec 31, 2047	4,800,000	26	330,808	4,561,547
Exchange Residence @ Gage	5.75%	Jun 30, 2019	Jun 30, 2049	75,972,500	28	5,235,895	75,224,734
Undergraduate Life Science Teaching labs	5.75%	Aug 31, 2019	Aug 31, 2049	43,635,000	28	3,007,249	42,552,483
Student Union Building Central (Trek)	5.75%	Jun 30, 2015	Jun 30, 2050	24,875,000	29	1,631,508	23,360,201
UBCO Skeena	3.69%	Jul 31, 2020	Jul 31, 2050	21,735,500	29	75,604	21,735,500
UBCO Nechako Commons - SHFE	6.00%	Jun 30, 2021	Jun 30, 2051	20,681,400	30	1,502,481	20,681,400
UBCO Nechako Residence Working Capital	5.75%	Jun 30, 2021	Jun 30, 2051	25,952,500	30	1,835,263	25,952,500
UBCO Lot 27 and 28	5.75%	Oct 31, 2014	Oct 31, 2054	2,400,000	33	150,581	2,270,314
							<u>1,445,982,227</u>

# DEBT REPORT INTERNAL LOANS

September 8, 2021

Peter Smalles, Vice-President Finance & Operations

Yale Loh, Treasurer

Doug Cheung, Director, Treasury

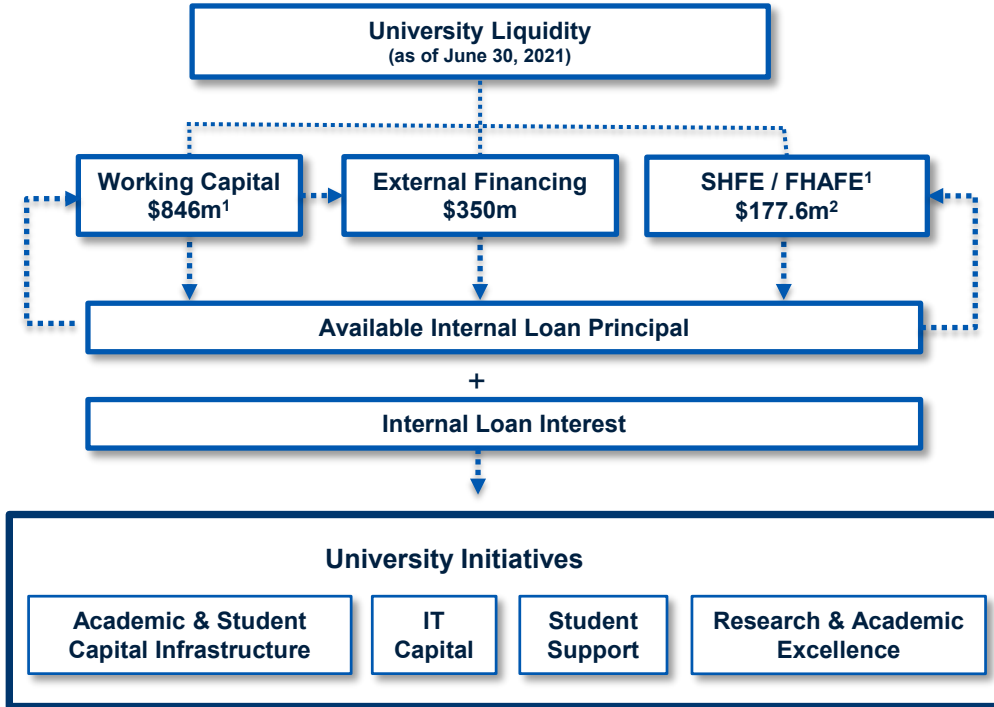


# OVERVIEW



- Internal loans are provided to support capital or information technology projects
  - Construction and renovation of academic buildings and research facilities
  - Student and faculty housing initiatives
  - Infrastructure development (e.g. Bioenergy Research Demonstration Facility)
  - Information Technology (e.g. Integrated Renewal Project)
- Internal loans greater than \$5m require Board of Governor approval while loans between \$1m to 5m require Executive approval
- Interest charged on loans designed to capture the opportunity cost to UBC over the term of the loan (longer term = higher interest rate)
- Internal loans are funded via different sources:
  - UBC working capital
  - External financing (UBC direct or through Provincial Treasury)
  - Trek Endowment / SHFE / FHAFE (Land lease proceeds from UBC land assets)

# HOW INTERNAL LOANS FLOW THROUGH UBC



- In addition to internal loans, UBC working capital is used to support University operations
- External financing is now limited given Provincial moratorium on new debt (\$18m since 2007)
- SHFE / FHAFE restricted to support development of student housing and funding of faculty housing assistance programs
- Principal payments are reinvested back into internal loan funding sources while interest is used to support university initiatives such as academic or student infrastructure, IT capital, student support and academic enhancement

Notes: <sup>1</sup> Working capital includes unspent SHFE / FHAFE amounts

<sup>2</sup> Funds within the TREK endowment can also be used to support SHFE / FHAFE loans

# INTERNAL LOAN INTEREST RATES



Working Capital Loan Interest Rates							
Term	Construction	2 years	3 years	5 years	7 years	10 years	> 10 years
Interest Rate	2.50%	3.00%	3.50%	4.25%	5.00%	5.50%	5.75%

- **Construction loan** interest is charged as construction costs are incurred, offset by funding inflows (i.e. donations, government funding etc.)
  - Interest rate calculated as the higher of prime lending rate less 1.0% (currently 1.95%) or a set rate of 2.50%
- **Working Capital** loans funded through UBC Treasury range from 2 to 30 years at interest rates of 3.00% to 5.75% mirroring historical cost of borrowing externally
  - The majority of internal loans related to major capital projects are 30 years, while IT projects are generally 10 years
- **SHFE** loans are 30 years at an interest rate of 6.00% (changes with spend rate)

# EXTERNAL AND INTERNAL DEBT METRICS



	Target	FY2021 (Actual)	FY2022 (Forecast)	FY2023 (Forecast)	FY2024 (Forecast)	FY2025 (Forecast)
<b>External Debt Ratios</b>						
Debt Burden	< 5.5%	0.80%	0.70%	0.66%	0.62%	0.60%
Debt Service Coverage	> 1.1x	10.03x	10.52x	8.45x	8.82x	9.09x
Financial Leverage	>3.0x	5.90x	5.63x	5.75x	5.14x	4.63x
<b>Internal Debt Ratio</b>						
Operating Debt Burden	< 3.0%	1.23%	1.39%	1.42%	1.39%	1.90%
<b>Total Debt Ratios<sup>1</sup></b>						
Total Debt Burden	< 5.5%	3.27%	3.52%	4.02%	3.95%	4.80%
Debt Service Coverage	>1.1x	2.45x	2.09x	1.38x	1.38x	1.14x

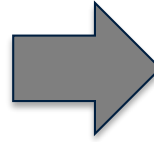
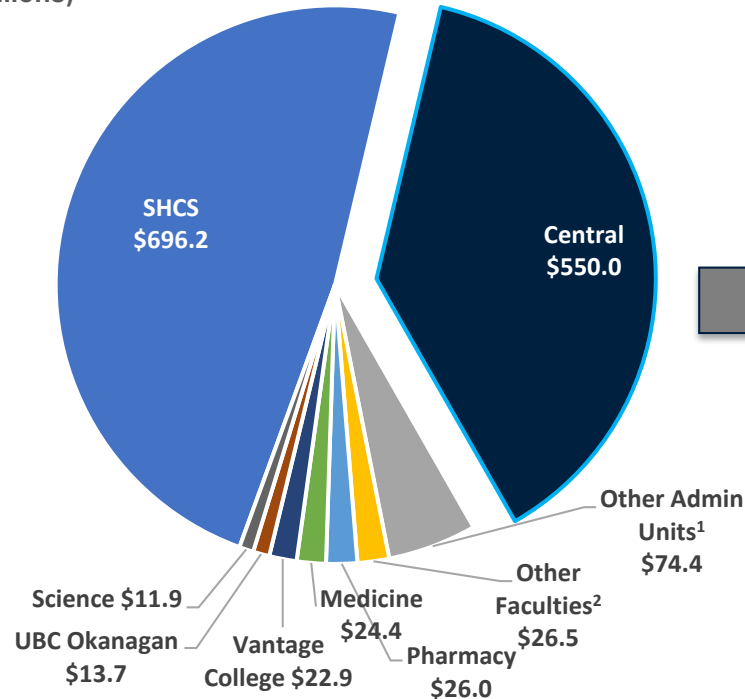
- Although credit rating agencies focus on external debt ratios, internal debt and total debt metrics are assessed to understand sustainability of UBC's financial leverage. Total debt metrics illustrate impact on ratios if UBC sought external funding for all internally financed projects.
- Internal loans peak at the end of FY25 pushing total debt burden and debt service coverage close to their target limits. Additional internal loans beyond current forecast will put increased pressure on target ratios and overall liquidity



# SUMMARY OF INTERNAL LOANS BY FACULTY / BUSINESS UNIT



(in \$millions)



Initiative Supported by Central	Outstanding Loan Principal as at June 30, 2021 (in millions)
Information Technology	\$298.2
Faculty Support	\$114.1
Research	\$50.0
Learning & Engagement	\$46.3
Student Capital Infrastructure	\$27.9
Facilities	\$13.5
<b>Grand Total</b>	<b>\$550.0</b>

**Total Internal Debt Outstanding: \$1.45B**

Notes: <sup>1</sup> Other Admin Units include Building Operations, Development Office, and IT  
<sup>2</sup> Other Faculties include Sauder, Dentistry, Arts, Education, Applied Science, Law

# DEBT SERVICE BURDEN BY FACULTY / BUSINESS UNIT

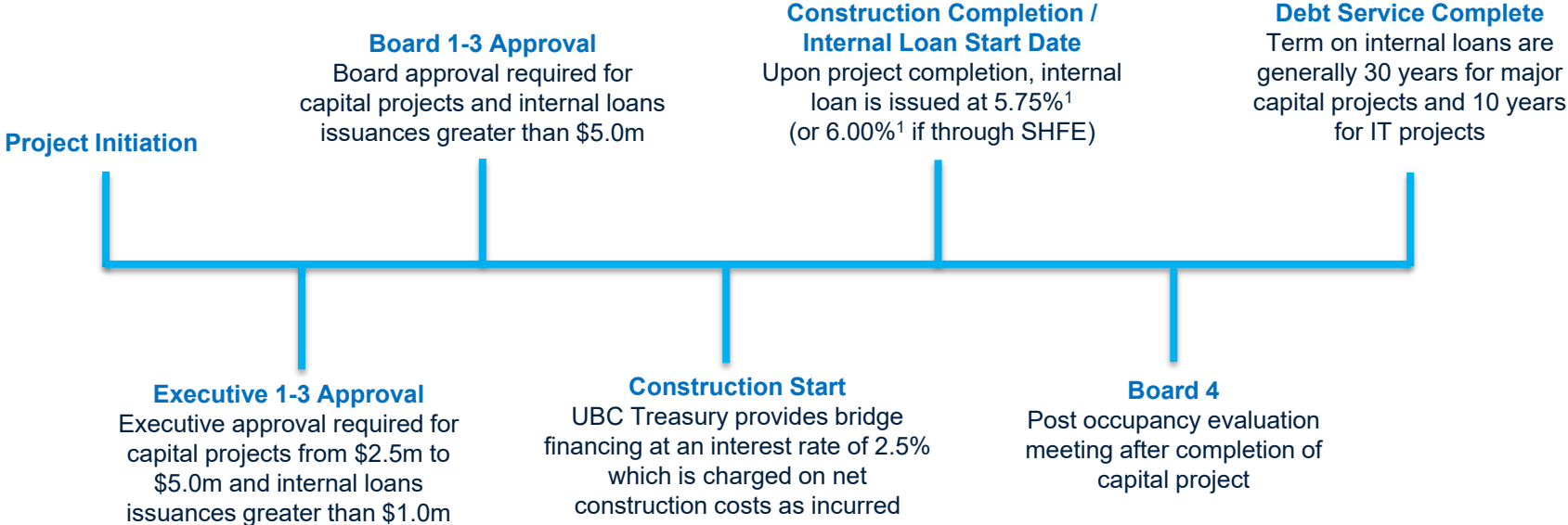


Borrower (in millions)	Loan Balance June 2021	Debt Service FY22	Operating Budget	Debt Burden Ratio <sup>1</sup>
SHCS <sup>2</sup>	679.8	41.2	200.4	20.55%
Central	392.1	30.9	294.5	10.49%
Vantage College	22.9	1.7	16.9	10.08%
Building Operations	64.7	5.4	85.8	6.32%
Dentistry	7.3	1.3	28.9	4.39%
Pharmaceutical Sciences	13.8	0.6	25.3	2.46%
Development Office	2.1	0.4	29.6	1.33%
Information Technology	7.5	1.2	91.2	1.29%
UBC Okanagan	6.8	0.5	45.8	1.05%
Science	11.9	1.3	166.9	0.76%
Education	4.1	0.3	53.6	0.58%
Arts	5.2	0.4	198.1	0.20%
Medicine	2.6	0.3	242.9	0.13%
Law	0.1	0	16.7	0.04%
Sauder	0.0	0	100.9	0.00%
<b>Target</b>	<b>less than 3%</b>			

- Various business units / faculties currently have a debt burden ratio above the target of <3.0%
- Debt burden ratios will be assessed regularly against new internal loan requests to ensure business units / facilities are not over leveraged and maintain ability to repay internal loans

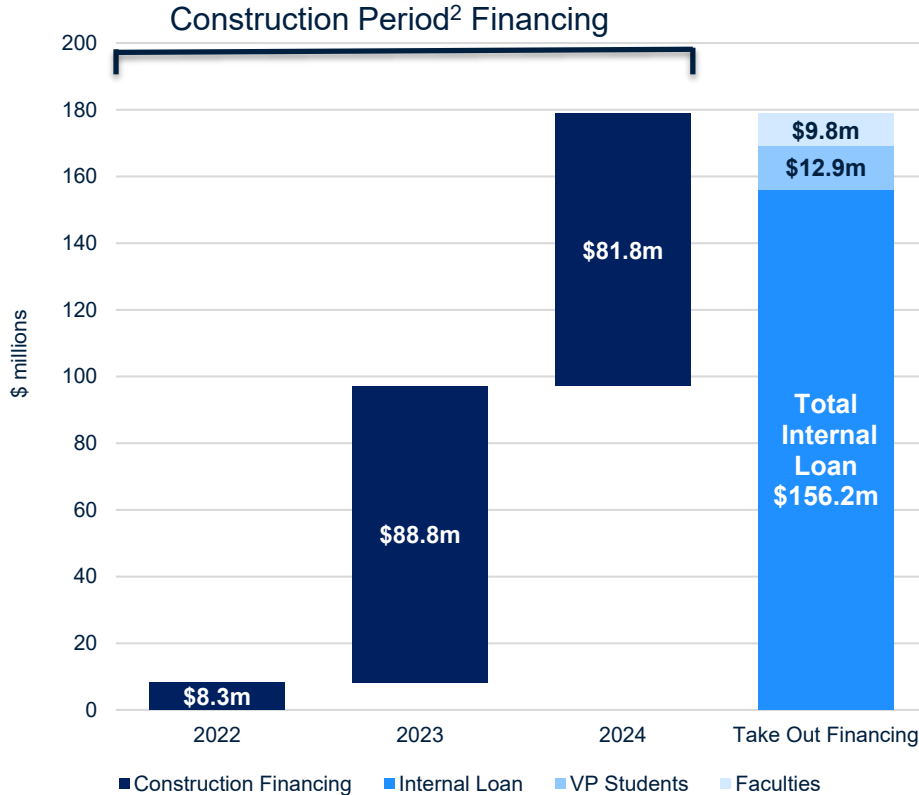
Notes: <sup>1</sup> Calculated as central or faculty funded debt service as a percentage of operating revenues  
<sup>2</sup> Calculated as total debt service related on SHCS internal loans as a percentage of operating revenues

# CAPITAL PROJECT / INTERNAL LOAN PROCESS



Notes: <sup>1</sup> For internal loans which are greater than 10 years

# INTERNAL LOAN EXAMPLE – GATEWAY HEALTH BUILDING



Remaining cost on the project is forecast to be \$178.9m with construction financing funded through Working Capital.

Internal loan comprised<sup>1</sup> of:

- Academic Capital Fund \$120.1m
- UBC Central \$34.1m
- Kinesiology Undergraduate Society \$1.0m
- Faculty of Education \$1.0m

Faculties contributing funding:

- Arts \$3.4m
- Kinesiology \$3.0m
- Applied Science \$2.0m
- Nursing \$1.0m
- Kinesiology partner lease \$0.5m

Notes: <sup>1</sup> Various terms and interest rates  
<sup>2</sup> Annual construction period: Sept - Aug