

Capital Debt Policy

Office of Administration:	Office of the Vice-President, Finance and Administration
Approval Authority:	Board of Governors
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Next Review:	October 2026
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1. Purpose

1.1 The purpose of this Policy is to establish the terms under which the University can borrow funds from external sources as part of the Annual Capital Budget or individual Capital Project Budget approval process. This Policy provides guidelines on:

- 1.1.1 Responsibilities for the approval of capital debt (borrowing);
- 1.1.2 Maximum limits on the amount of total external capital debt incurred by the University; and
- 1.1.3 Reporting on external capital debt.

2. Scope

- 2.1 The Capital Debt Policy applies to all departments, units, and employees.
- 2.2 Faculties, Schools or Departments are not legal entities and are therefore not permitted to borrow funds without the approval of the Board of Governors.
- 2.3 The Capital Debt Policy is subject to conditions prescribed by the Ministry of Colleges, Universities, Research Excellence and Security (MCURES) as set out in the Exit Loan Agreement signed between MCURES and Laurentian University of Sudbury effective October 21, 2022. In the event the Policy contradicts the conditions or terms of the Loan agreement, the Loan agreement prevails.

3. Definition/Principles

3.1 The following are the terms defined for this Policy:

- **“Annual Meeting”** means the annual meeting that will occur between the University and MCURES on a date that is not more than 14 days after the University publicly releases its audited annual financial statements, for the purpose of discussing the University’s operations, financial health and transformation progress; the University’s audited financial statements; the Public Reporting Information to be reported by the University; the University’s proposed updates to the Financial Forecast; and whether an amendment to any terms of the Loan Agreement is appropriate in view of the operations and financial health of the University and the implementation of the Agreement to that date;
- **“CCAA”** means the *Companies’ Creditors Arrangement Act*;
- **“CCAA Plan Implementation Date”** means November 28, 2022, the date on which the CCAA Plan was implemented in accordance with its terms;
- **“Debt Service Coverage Ratio”** means the ratio determined by the formula $(A-B)/C$, where “A” is the University’s EBITDA for a particular fiscal year, “B” is the amortization of deferred capital contributions for such fiscal year, as determined from its audited financial statements, and “C” is the sum of all scheduled principal, interest and capital lease payments of the University for such fiscal year as determined from its audited financial statements;
- **“Designated Real Estate Assets”** has the meaning given to such term in the CCAA Plan;
- **“EBITDA”** means, in respect of a particular fiscal year, the University’s net income or loss as shown on its audited financial statements (excluding all extraordinary, unusual and all other non-recurring gains or losses including, by way of example, costs relating to third party consultants or IT expenses incurred as part of the Transformation Plan), plus to the extent the following amounts were deducted in calculating net income or loss for such fiscal year, without duplication: (a) interest expenses, and (b) depreciation and amortization expenses;
- **“Expendable Net Assets”** means, as at a particular fiscal year end as determined from the University’s audited financial statements, the value of the University’s net assets that are available to support the University’s Operations and not subject to any internal or external restrictions on use and which do not constitute “restricted assets” pursuant to generally accepted accounting principles;
- **“Financial Forecast”** means a rolling financial forecast of the University, approved by the University’s Board of Governors and certified by the University’s President, for the five (5) year period following the fiscal year end of the University for which the Financial Forecast is delivered, which Financial Forecast shall be updated annually in accordance with the Loan Agreement and shall include a detailed summary of (a) acquisitions, investments and capital expenditures, and (b) the manner in which the University intends to use the operating and other surpluses identified in the Financial Forecast;
- **“In-Year Excess (Deficiency) of Revenue Over Expenses”** means the quantum determined by the formula $(A - B)$, where “A” is Total Revenues and “B” is Total Expenses;

- **“Lien”** means any encumbrance of whatever kind or nature whatsoever, assignment, hypothec, mortgage, lien, pledge, security, interest (including any leasehold or sub leasehold interest), charge, trust (including any actual, deemed, constructive or equitable trust arising pursuant to common law, statute or otherwise), easement, right of way, right or option to lease or purchase, title retention agreement or other agreement or arrangement to secure the performance of any obligation;
- **“Net Income Ratio”** means the ratio determined by the formula $(A - B) / A$, where “A” is Total Revenues and “B” is Total Expenses;
- **“Net Operating Revenue Ratio”** means the quantum determined by the formula (A / B) , where “A” is the University’s cash flow from operating activities (from its statement of cash flows) for a particular fiscal year as determined from its audited financial statements, and “B” is Total Revenues;
- **“Obligations”** means all indebtedness, liabilities and other obligations (including all principal, interest, fees and reimbursement and indemnity obligations) owed to MCU under the Loan Agreement;
- **“Pension Benefits Act”** means collectively the *Pension Benefits Act*, R.S.O. 1990, c. P.8 and the regulations made thereunder;
- **“Pension Plan”** means The Retirement Plan of Laurentian University of Sudbury, Registration No. 0267013, administered under the Pension Benefits Act;
- **“Primary Reserve Ratio”** means the quantum determined by the formula $(A/B) \times 365$, where “A” is Expendable Net Assets, and “B” is Total Expenses;
- **“Total Expenses”** means the University’s total expenses for a particular fiscal year as reported in its audited financial statements;
- **“Total Revenues”** means the University’s total revenues for a particular fiscal year as reported in its audited financial statements;
- **“University Operations”** means the ordinary day-to-day operations of the University, including the delivery of post-secondary education to students, ongoing research activities and other related and ancillary activities of the University; and
- **“Unpaid Amounts”** has the meaning set out in subsection 14.1 of the Loan Agreement.

4. Policy Statement

- 4.1 The University covenants and agrees that it shall not, without the prior written consent of MCURES in its sole discretion:
- 4.1.1 grant, create, assume or suffer to exist any Lien affecting any of its properties, assets or other rights other than Permitted Liens;
 - 4.1.2 guarantee or otherwise provide for, on a direct, indirect or contingent basis, the payment of any monies or performance of any obligations by any other person;
 - 4.1.3 incur, assume or permit to exist any indebtedness, except indebtedness in an aggregate amount not to exceed \$10,000,000 [aggregate debt] which indebtedness shall be **unsecured** and shall be contractually subordinated to the

Obligations;

- 4.1.4 make or commit to making any expenditure or payment or incurring any obligation (including providing another person with any funds to make any expenditure or payment) other than in the ordinary course of business and consistent with the filed MCU Financial Forecast;
- 4.1.5 make or commit to making any acquisition, investment or capital expenditure exceeding \$10,000,000 (individually or in aggregate with all other acquisitions, investments and capital expenditures made between the Facility Advance Date and the Facility Repayment Date) without the prior approval of MCURES in its sole discretion following the review of a business case submission provided by the University to MCURES. For greater certainty, acquisitions, investments or capital expenditures that are undertaken in accordance with the Financial Forecast delivered to MCURES shall not be included for purposes of this negative covenant. At the fifth Annual Meeting, the University and MCURES shall discuss this negative covenant and MCURES shall determine, in its sole discretion, if an amendment or increase to such aggregate amount is appropriate taking into account the University's satisfaction of its obligations under the CCAA Plan, the financial health of the University and any investments that may be deemed advisable to better position the University for continued future success;
- 4.1.6 sell, transfer, lease or dispose of any of its assets, property or undertaking to any person, or enter into any agreement or grant any option or other right in respect thereof, other than the sale, transfer, lease or disposition of (i) worn out, unserviceable or obsolete equipment in the ordinary course of business, or (ii) Designated Real Estate Assets sold to the Province of Ontario, the net proceeds of which are transferred by the University to the Distribution Pool to fund creditor distribution in accordance with the CCAA Plan; or
- 4.1.7 Comply with the financial covenants prescribed by MCURES in the Loan Agreement (each a "Financial Covenant" and collectively the "Financial Covenants") with the understanding that MCURES is entitled to specify additional Financial Covenants or modify the calculation or threshold requirements for the Financial Covenants listed below:
- for each fiscal year of the University commencing May 1, 2027, the University shall have a Net Income Ratio of not less than 1.5%;
 - for each fiscal year end of the University commencing April 30, 2026, the University shall have a Primary Reserve Ratio of not less than 30 days;
 - for each fiscal year of the University commencing May 1, 2027, the University shall have an In-Year Excess (Deficiency) of Revenue Over Expenses of not less than \$0;
 - for each fiscal year end of the University commencing April 30, 2026, the University shall have Expendable Net Assets of not less than \$0;
 - for each fiscal year end of the University commencing April 30, 2024, the University shall have a Debt Service Coverage Ratio of not less than 1.1; and
 - at each fiscal year end of the University commencing April 30, 2028, the University shall have a Net Operating Revenue Ratio of not less than 5.0%.

4.2 Within the Board of Governors, the Finance and Property Committee is primarily responsible for matters relating to capital debt.

- 4.3 Capital borrowing will be undertaken by the Administration only following approval of the capital project by the Board of Governors. Such approval shall include the total cost of the project, source(s) of funds for debt repayment and the period of time over which the debt is planned to be repaid.
- 4.4 Capital borrowing exceeding \$10,000,000 (individually or in aggregate with all other acquisitions, investments and capital expenditures made between the Facility Advance Date and the Facility Repayment Date) requires approval of MCURES. A business case would have to be submitted to the Finance and Property Committee for recommendation of approval by the Board of Governors prior to submission to MCURES for final approval. Business shall include the total cost of the project, source(s) of funds for debt repayment, and the period of time over which the debt is planned to be repaid.
- 4.5 The Vice-President, Finance and Administration will report annually to the Finance and Property Committee on the composition of capital debt and compliance with MCURES Loan covenants so long as they are applicable.
- 4.6 Capital borrowing will be undertaken by the University only following the terms as set out in this Policy.
- 4.7 This Policy shall be reviewed on an annual basis.