University of Waterloo Debt Policy
Approved by Board of Governors June 2025

Introduction

Debt includes all funds borrowed from or guaranteed to third party lenders. This policy establishes parameters regarding the University's strategic use of debt within limits established by financial ratios. The two key limits established by financial ratios are Debt Affordability and Debt Capacity. The use of debt is further informed by other factors as detailed in this policy. Consideration of capital projects is to be in alignment with the Campus Plan and with the requirements of this policy.

Debt Policy Metrics and Annual Compliance Review

On an annual basis, the University will review and confirm the following:

Policy Measure	**Metric**	**Ratio**	**Limit**
Debt Affordability	Debt burden ratio	The ratio of (A) to (B), where: (A) = the sum of annual principal payments, capital contributions to any sinking fund, and interest payments; and (B) = total revenue	The ratio will not exceed 4% on an institution wide basis
Debt Capacity	Viability ratio	The ratio of (A) to (B) where: (A) = expendable net assets[1] and (B) = long-term debt	The ratio will be in the lowest risk band of the MCURES Financial Accountability Framework[1] which is defined as greater than 0.6.

Financial Assessment of Additional Debt

New capital projects, or business plans, that would increase the University's debt level will be considered based on the financial impact of taking on additional debt from both the Debt Affordability and Debt Capacity perspectives, as well as the opportunity cost of consuming remaining debt capacity.

The financial assessment on whether to take on debt will be guided by the following, using anticipated financing rates and amortization rates for debt being considered:

- Capital projects will be considered on a case-by-case basis based on a supporting business plan and in the context of the Campus Plan

[1] Using definitions and thresholds from the MCURES University Financial Accountability Framework Technical Manual as at September 2023; updates to be considered at periodic reviews of this policy

- The University's Debt Affordability limit and considerations of consuming additional capacity
- The University's Debt Capacity limit and considerations of consuming additional capacity
- Impact on pro forma calculation of any mandatory MCU financial metrics or other relevant covenants in existing definitive agreements
- A provision to service principal and interest costs, applicable capital contributions to any sinking fund, and incremental occupancy and maintenance costs can be established annually within the operating budget or the ancillary enterprises budget, as applicable

Indirect debt and any debt guarantees will be considered in a financial assessment of whether to take on such obligations and/or in pro forma calculations for the annual review and confirmation of debt affordability and debt capacity. Indirect debt includes debt exposure through a partnership or joint venture arrangement that is not recorded on the University's balance sheet, but which may expose the University to potential financial or reputational liability. For pro forma calculations, the full amount of any debt guarantee is included, and a project specific risk factor analysis would assess the proportion of indirect debt to be included.

Renewal Date: The Debt Policy will be reviewed at 3-year intervals.