



University of Toronto
Governing Council

Capital Renewal Fund Policy

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Capital Renewal Fund Policy

Background

The broad purpose of the Capital Fund is to consolidate the University's capital financing in a single, comprehensive budget. This ensures that the financial plans and their consequences for all capital projects are reviewed consistently and coherently. This also helps to ensure that plans are implemented in a timely and efficient manner, that all sources of capital funding are thoroughly exploited and that the total capital commitment can be effectively controlled and planned.

In conjunction with the Capital Plan, the Capital Renewal Fund makes possible an orderly and optimal matching between available cash flows and the priorities for individual projects, and permits rational programming in spite of the irregularity of flow of funds from external sources. Used in this way, the fund allows a smoothing of construction schedules, within a tolerable level of risk, to suit the local construction market and the administrative capacity for managing multiple projects. The fund provides a consistent method of allocating interest credits and costs to project cash flow balances and shortfalls.

The Capital Renewal Fund represents the net unexpended balance in the overall Capital Fund. The Capital Renewal Fund is used to account for projects in the operating fund and for some projects for ancillary operations. The Capital Renewal Fund may be used to provide bridge financing for projects in order to respond to urgent priorities or to take advantage of special opportunities either in the availability of funding or in attractive construction costs. Investment income earned when the fund is in positive balance may provide a further source of undesignated funding for the Capital Plan or for unforeseen expenses.

The existence of the Capital Renewal Fund in no way predetermines or over-rides the Capital Plan. In order for a project to be eligible for support from the fund it must be approved by normal procedures ("Steps in the Approval and Execution of Major Capital Projects") and duly included in the Capital Plan.

Policy Provisions

1. Funding of the capital costs of all new construction, additions, repairs, renovations, and alterations, and for a regular program of deferred maintenance will be managed through the Capital Fund. Excluded are the operating expenses for routine maintenance, and alterations costing less than \$500,000.
2. All capital grants from governments and other agencies, and all donations earmarked for general or specific capital purposes are assigned to the Capital Fund. Any restricted funds or operating funds appropriated for capital purposes will also be assigned to the fund, following appropriate approval.
3. Capital financing plans for specific projects will be subject to approval by the Business Board and, as appropriate, Governing Council and will be expected to support the realization of the Capital Plan. Individual projects may be funded from grants and gifts designated for them, and from undesignated funds within the fund at large.
4. The Capital Renewal Fund, in total, may be in negative balance. The total allowable debt may be as high as ten per cent of total annual operating income, and may exceed this amount with the approval of the Business Board. The annual net charge for the amortization of debt in the fund may not exceed one per cent of the annual operating budget.
5. Investment income accruing on all capital grants and gifts within the fund will be treated as general income to the fund, whenever the terms of such grants and gifts so permit. Investment income may be attributed to a specific project where such income is specified in the funding plan for the project.

6. Each year specific consideration shall be given to an appropriation to the Capital Renewal Fund from the operating budget. The appropriation shall in no case be lower than the net actual charge for amortization of debt in the fund, and must at least be sufficient to meet commitments made under the aegis of the Capital Plan. The appropriation may be larger if, as a matter of budgetary priority, contributions are made to enhance the fund.
7. The Chief Financial Officer will present an annual report on the activity in the fund to the Business Board.

Sources of Revenue for the Capital Fund

The following internal and external sources of revenue may provide support to the fund in accordance with appropriate University policies. Such support may flow to the fund either directly or indirectly through the operating budget or income from the unrestricted endowment.

External sources include capital grants and facility renewal grants from the Ministry of Education and Training; other provincial capital grant programs; capital grants from agencies of federal and municipal governments, or other agencies of the provincial government; designated and undesignated gifts from foundations, corporations and individuals; and bequests.

Internal sources include annual appropriations from the operating budget; trust funds in the custody of the University or various divisions which have terms compatible with the fund*; contributions from private fundraising income; contributions from funds carried forward in divisional operating budgets*; maintenance funds from the annual operating budget of Facilities and Services; a portion of overhead income on research grants and contracts*; net revenue from selected ancillary services. (e.g. parking); contributions from students, duly approved under the Policy on Ancillary Fees; and proceeds from the sale of real estate assets.

* Policies and signing authorities relevant to the use of these funds will remain in place. Any changes in policy regarding restricted funds will be addressed separately and with full consultation.

Access to the Fund

A number of factors must be taken into account in determining whether or not a capital project may receive support from the Capital Renewal Fund. The project must be in the University's Capital Plan or revised Capital Plan, in the approved facility renewal schedule and other comparable schedules, on the list of major projects approved by the Accommodation and Facilities Directorate, or, in the case of property acquisition, consistent with campus master plans and the Policy on Real Estate Strategy. Other factors which will be considered are:

- i. The project's priority according to the Capital Plan.
- ii. Firm and favourable prospects for retiring any debt through funding, from external or internal sources.
- iii. The importance and timeliness of the project for attracting additional funding from benefactors and public agencies.
- iv. Projected trends in costs of construction, deferred maintenance, or in costs of borrowing.
- v. Relationships to other projects.
- vi. In the case of acquisition of equipment as part of a capital project, firm commitments that sources of funding other than the Capital Renewal Fund will be vigorously pursued.
- vii. Relationship to campus master plans.

- viii. Opportunity for investment or to protect investments, in relation to property acquisitions and development.

Investment Income

Depending on the basis on which contributions are made to the fund, it may serve as a "credit union." All designated contributions on deposit in the fund will be consolidated in order to minimize the debt burden and provide optimal cash flows. Investment income may be attributed to specific projects, with a right to credit established for divisions as they contribute to the Fund.

- a) Investment income on moneys placed into the Capital Renewal Fund for a specific project will accrue to that project, if such interest is an explicit part of the approved project funding plan.
- b) Investment income on moneys which are not designated to a specific project will accrue to the benefit of the fund and be added to the undesignated funds account.
- c) To the extent allowed by existing policies, exceptions and variations to a) and b) may be made by the Chief Financial Officer in consultation with the Vice-President and Provost.

Debt Financing for the Fund

Whenever the fund is underwritten by debt financing, indication must be given on an individual project basis of:

- i. the form of debt that will be assumed.
- ii. the sources of funding from which the debt will be repaid.
- iii. the means by which funds will be recovered from the sources of repayment.

The Capital Renewal Fund may be used to temporarily bridge finance capital projects when there is an acceptable plan to repay the funds, subject to the approval by the Business Board for projects with a value above \$500,000 and by the Accommodation and Facilities Directorate for projects below \$500,000. Investment income will be determined at interest rates established by the Chief Financial Officer based on the University's opportunity cost, normally consistent with the annual budget report. The Chief Financial Officer may approve bridge financing for approved projects up to \$500,000 when a permanent funding source has been identified or there is a reasonable belief that funding will be secured.

The Chief Financial Officer will ensure that the management structures and competence necessary to administer a program of debt financing are in place.