CAPITAL, ASSET MANAGEMENT, FUNDING AND FINANCING POLICY

Effective Date: October 21, 2020 **Approval Authority:** Board of Governors

Supersedes /Amends: October 7, 2014 **Policy Number:** CFO-4

PREAMBLE

The University manages its global Capital Fiscal and Financing Capacity (as defined below) in an integrated manner by factoring its operating, capital investments and liquidity needs in a balanced and strategic approach. The present Policy ensures that all capital needs are allocated in accordance with the University's strategic vision, meet acceptable levels of performance over the long term, and are managed for present and future users, within the University's short and long-term fiscal and financing capacity.

SCOPE

This Policy applies to all institutional budgets, namely the Capital Budget, the Operating Budget and the Cash Budget (as such terms are defined below), regardless of the source of funding or financing.

PURPOSE

The purpose of this Policy is to:

- Ensure the optimal level of financial support towards the University's capital investment as well as towards academic, research and operational needs;
- Ensure financial protection of the University's capital investments;
- Develop and sustain a healthy financial position for the University; and
- Minimize the University's operational budget exposure.

DEFINITIONS:

For the purposes of this Policy, the following definitions shall apply:

"Capital Asset(s)" means an infrastructure asset, whether physical or technological, which requires significant economic resources and which enables the delivery of programs and/or services at the University.

"Capital Asset Class(es)" is used to categorize Capital Assets that exhibit similar characteristics in broad classifications. There are five Capital Asset Classes:

a) Development: growth-oriented investments aligned with the University's strategic plan (real estate acquisitions and construction);
b) Redevelopment: investments to overcome exceptional market conditions despite given circumstances and/or to streamline the University's operations (moves, expansions, repurposing);
c) Renovations/Deferred maintenance: protection-oriented investments to preserve the value and functionality of the assets;
d) Equipment/Infrastructure: investments to provide the necessary materials for operational purposes; and
e) Information technology systems and platforms: investments to sustain and update the University's technology systems and platforms.

"Capital Budget" refers to the University's planning and capital allocation of its Capital Asset investments over a rolling 4-year cycle divided into the five Capital Asset Classes.

"Capital Fiscal and Financing Capacity" means the maximum allowable amount of allocated dollars that may be used towards the University's operating and capital investments needs in order to meet financial sustainability goals over the long term.

"Cash Budget" means the cash liquidity for a given fiscal year segregated by monthly usages and disbursements of obligations/commitments to support growth and opportunities, and to manage risk.

"Life-Cycle" means the time interval that commences with the need identification of a Capital Asset and terminates with its the disposal.

"Operating Budget" means the projected operating accumulated deficit net of internally Restricted Funds (as defined below).

"Restricted Fund(s)" means the accumulated unspent funds from research projects as well as from other externally restricted subsidies and donations by a sponsor or donor external to the University.

POLICY

1. The University establishes integrated Capital, Operating and Cash Budgets on an annual basis to meet its four core capital management principles of prudence, continuity, agility and long-term financial sustainability. The indicators, their targets and tolerance ranges are reviewed every 3 to 5 years (see Appendix B).

2. To maximize return on investment, to manage asset risks, and to ensure safety and regulatory compliance, the acquisition, management and disposal of the University's Capital Assets purchased with capital, operating and Restricted Funds are governed by the Enterprise Asset Management (EAM) program. The EAM program is modeled on established industry standards for the management of Capital Assets throughout their Life-Cycle and is reviewed periodically.

3. The Capital Budget is developed to reflect the needs of the University. Those needs are balanced with fiscal capacity as determined by the Funding Framework (see Appendix B) and the asset allocation guidelines (contained in the Capital Budgeting and Monitoring Framework - see Appendix C). The balancing or prioritization process incorporates all five Capital Asset Classes to ensure reliability, while maximizing the Life-Cycle of an asset and emphasizing strategic growth, risk management and sustainability values.

4. The Funding Framework refers to the determination of allocated dollars for the University's Capital Budget taking into account the impact of the University's Operating Budget and Restricted Funds, factoring financial capacity, affordability and liquidity considerations.

5. The Capital Budget and the Funding Framework are monitored on a periodic basis and reported to the Capital Budget Committee in order to evaluate the performance of each Capital Asset Class and its associated investment strategy, as well as track the effectiveness and benefits of the Funding Framework (see Appendix B).

6. Decision-making processes regarding each institutional budgets are risk-based to minimize the University's risk exposure (see the *Policy on Enterprise Risk Management Policy* (BD-14)).

7. All information relevant to this Policy, including financial information relating to each Capital Asset Class, is gathered and consolidated for accurate, timely and up to date compilation, interpretation and intervention.

   For this purpose, all information relevant to this Policy is communicated to the Office of the Treasurer, Financial Services, in a timely and accurate manner.

8. The University ensures that each Capital Asset is valued in accordance with its true rate of consumption and measures the aggregated value of both the investment and the operational costs of the Capital Asset.

9. All Capital Assets purchased with University operating, capital or Restricted Funds, as well as all donated Capital Assets, remain the property of the University regardless of physical location, unless otherwise specified by a documented agreement. Disposal, removal or modification of Capital Assets is prohibited except by authorized University employee, as outlined in the EAM program.

10. The Financing Framework (see Appendix D) is the supporting governing structure for the University's serviced debt only. The Financing Framework supports the alignment of capital investments as set out in the Capital Budget with duration led financing strategies.

11. Financing Framework refers to the optimal alignment of the University's liquidity requirements and capital investments against its global financing program and aims to reduce risk and minimize cost.

12. Duration alignment is the exercise of matching the Life-Cycle of an asset with the relevant asset management strategy. In order to follow this strategy, the Capital Asset Classes are grouped into three categories, namely the active property related investments, the strategic property related investments and the moveable assets related investments.

    a) Active property related investments include properties from the following Capital Asset Classes:
        i. development;
        ii. redevelopment; and
        iii. renovation/deferred maintenance.

Active property related investments form part of the core real estate development footprint of the University over the long term.

b) Strategic property related investments include properties from the development Capital Asset Class that are in a "buy and hold" position for the potential development of the University and for which the University seeks to retain financial agility for when opportunities arise or in case of disruptive financial conditions.

c) Moveable assets related investments include investments from the following Capital Asset Classes:
   i. equipment/infrastructure; and
   ii. information technology systems and platforms.

13. For the purpose of the duration alignment, two financing classes apply, namely the long-term class and the short-term class:

    a) The long-term class includes financing strategies for which the term is equal or greater than 10 years. The long-term class is aligned with the active property related investments, as described in section 12 (a), within the range of the duration alignment as set out in the Financing Framework.

    b) The short-term class includes financing strategies for which the term is less than 10 years. The short-term class is aligned with the strategic property related investments and with the moveable assets related investments, as described in sections 12 (b) and 12 (c), respectively, within the range of the duration alignment as set out in the Financing Framework.

14. The duration alignment for both Capital Assets investments and financing strategies is measured through the global weighed averages of each Capital Asset and financing classes.

15. The targets for long-term and short-term financing classes for capital investments are set out in the Financing Framework.

16. Other financing needs, for example as set out in the Operating Budget and Restricted Funds, are financed within the short-term class given the short-term liquidity nature of those needs.

17. The financing strategies include, but are not limited to, debentures, swaps, term loans, floating rate notes and banker acceptances through the University's line of credit and leasing.

18. Capital Assets that may be subject to leasing include, but are not limited to, assets with high rates of use and/or assets with a useful life of 5 years or less. The decision between purchasing or leasing is determined by the Office of the Treasurer in compliance with the Financing Framework (see Appendix D) and in accordance with the principles and guidelines of the EAM program. Asset monetizing strategies such as sales-leaseback transactions and dispositions will also be considered.

19. For any borrowings where the term is less than 365 days, the capacity to borrow must be approved annually by the Board of Governors and by the *ministère de l'Enseignement supérieur* (MES) through the University's Cash Budget, the whole in accordance with the *Financial Administration Act, CQLR, chapter A-6.001*, including *Chapter VIII Borrowings, Financial Instruments and Contracts, Investments and Financial Commitments of Bodies*, and the by-laws adopted pursuant to the Financial Administration Act.

20. For any borrowings where the term is greater than 365 days, all transactions must be approved by the Board of Governors and by the MES and/or the *ministère des Finances*, where applicable, the whole in accordance with the *Financial Administration Act, CQLR, chapter A-6.001*, including *Chapter VIII Borrowings, Financial Instruments and Contracts, Investments and Financial Commitments of Bodies*, and the by-laws adopted pursuant to the Financial Administration Act.

21. Capital Asset management and financing strategies are established through the full Life-Cycle costing.

Strategy and Monitoring

22. The Funding Framework (Appendix B) guides the University for monitoring its long-term financial health. It considers active and strategic investments and ensures its compliance with this Policy.

23. Notwithstanding other measures presented in the Funding Framework (see Appendix B), the University must take appropriate measures not to exceed, at the end of the appropriate 4-year Capital Budget cycle, a Debt-to-FTE of $ 12,000 for active property related investments and moveable assets related investments, as described in sections 12 (a) and 12 (c), respectively.

24. Strategic property related investments as described in section 12 (b) are measured by a Debt-to-FTE that matches the debt of the market value of the investments. If the strategic property related investments' Debt-to-FTE exceeds $ 3,000, the University evaluates whether such strategic property related investments continue to be in the best interests of the University, taking into account its strategic planning.

Governance

25. The Capital Budget and the EAM program is overseen by the Capital Budget Committee, which is co-chaired by the Chief Financial Officer and the Vice-President, Services and Sustainability. The Funding and Financing Frameworks are under the authority of the Chief Financial Officer and are managed by the Office of the Treasurer, Financial Services.

26. The Chief Financial Officer provides regular reports relating to the Policy to the President and Vice-Chancellor and to the Finance Committee of the Board of Governors.

27. The Office of the Treasurer, Financial Services, supports the Capital Budget Committee in the accomplishment of its responsibilities. Other units, such as Facilities Management, Instructional and Information Technology Services, the Office of the Provost and the Office of Research are responsible for capital needs identification, prioritization by sector and project management functions.

28. The Office of the Treasurer, Financial Services, is responsible for the development and review of the EAM program. Relevant University stakeholders, as outlined in the EAM program, maintain responsibility for appropriate acquisition, operation, maintenance, and disposal of Capital Assets in compliance with the program.

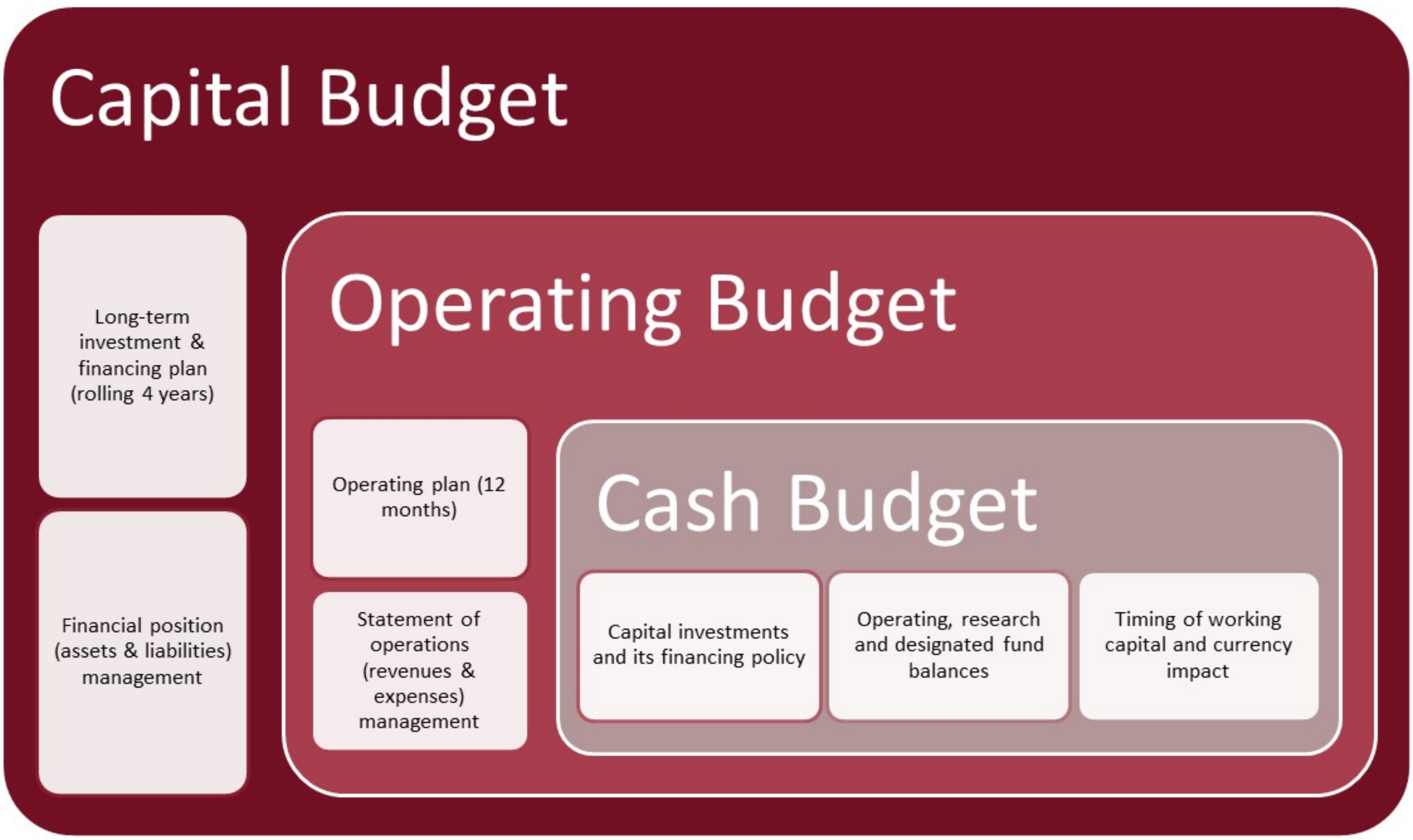
Policy Responsibility and Review

29. The overall responsibility for implementing and recommending amendments to this Policy shall rest with the Chief Financial Officer.

Approved by the Board of Governors on December 14, 1998, and amended on October 7, 2014, and October 21, 2020.

APPENDIX A

UNIVERSITY'S INTEGRATED INSTITUTIONAL BUDGETS



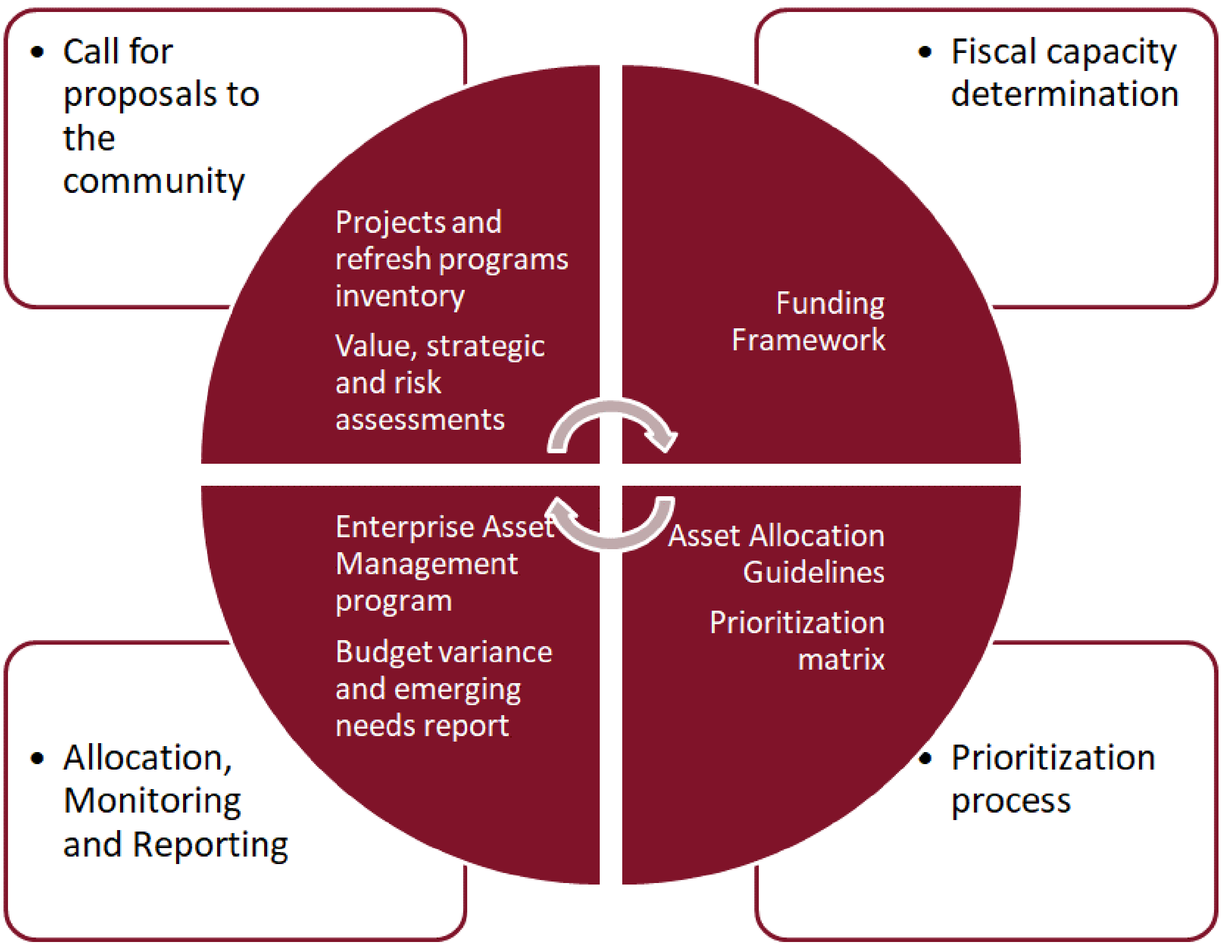
APPENDIX B

FUNDING FRAMEWORK

CAPITAL RISK ALLOCATION BUDGET	FUNDING FRAMEWORK							
	Objective Target	Minimum Tolerance	Policy constraints @ Target	Scoring @ Target	Risk scoring Acceptable/Tolerable/Unacceptable	Tolerable Score	Scoring @ Tolerable	Policy constraints @ Tolerable
FISCAL CAPACITY			29%					26%
Capital repayment obligations			7%					6%
Sinking funds; property related investments	100%	75%	15%	0.75	5 / 3 / 0	3	0.45	
Sinking fund; equipment/IT related investments	100%	75%	15%	0.75	5 / 3 / 0	3	0.45	
Condition of current assets			4%					4%
Facilities condition index	15%	25%	10%	0.5	5 / 3 / 0	3	0.3	
Equipment/IT depreciation rate	50%	75%	10%	0.5	5 / 3 / 0	3	0.3	
Capital long-term borrowing capacity			18%					16%
Net asset value	2.5x	2x	5%	0.25	5 / 3 / 0	3	0.15	
MES Long-term debt capacity	50%	25%	75%	3.75	5 / 3 / 0	3	2.25	
FISCAL AFFORDABILITY			55%					59%
Relative to the generation of FTE			49%					54%
Debt to FTE - Active	$ 12,000	$ 12,000	75%	3.75	5 / 3 / 0	3	2.25	
Debt to FTE - Strategic	$ 3,000	$ 3,000	75%	3.75	5 / 3 / 0	3	2.25	
Admissible space norm funding	100%	100%	75%	3.75	5 / 3 / 0	5	3.75	
Relative to the generation of free cash flows			1%					1%
Solvency ratio	3x	2.5x	5%	0.25	5 / 3 / 0	3	0.15	
Relative to the allocation of financial resources			4%					4%
Interest expense as % of total revenues	3%	5%	10%	0.5	5 / 3 / 0	3	0.3	
Capital reimbursement as % of total revenues	3%	5%	10%	0.5	5 / 3 / 0	3	0.3	
LIQUIDITY			16%					15%
Capital and operational short-term borrowing capacity			16%					15%
Line of credit availability	50%	25%	75%	3.75	5 / 3 / 0	3	2.25	
			TARGET RISK SCORING	22.75	MINIMUM RISK SCORING		15.15	67%
			% OF TARGET	100%				

APPENDIX C

CAPITAL BUDGETING AND MONITORING FRAMEWORK



APPENDIX D

FINANCING FRAMEWORK

Capital Budget Allocation Classes	Liability Alignment		
	Capital Cycle Projected Capital Investments	Capital Cycle Projected Financing Allocation	Alignment Variance
Property related investments - active	0%	0%	+-15%
Property related investments - strategic	0%	0%	+-15%
Equipment/Infrastructure/IT	0%	0%	+-15%
Total	**0%**	**0%**	**+-15%**

Values are as per the 19/20 - 22/23 Capital Budget cycle

Financing Classes		Financing Framework Model				
		Duration	Target Allocation	Range	Capital Cycle Forecast	WACC
Long-Term		> 10 years				
	Dedentures					
	SWAPS					
	Term Loans					
	Total		**70%**	**60% - 80%**		
Short-term		< or = 10 years				
	Dedentures					
	SWAPS					
	Term Loans					
	Leasing					
	Floating Rates Notes					
	Banker Acceptances					
	Total		**30%**	**20% - 40%**		
Total			**100%**			

Note: Any leasing of Capital Assets must also comply with the Leasing program developed by the Office of the Treasurer, Financial Services.