

Banking, Investments and Borrowing

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Purpose and Application

The *Minister's Binding Policy Directive on Banking, Investments and Borrowing*, which is issued under the authority of the *Ontario Colleges of Applied Arts and Technology Act, 2002*, establishes banking, investment and borrowing requirements for all colleges. This Operating Procedure, which applies to all colleges of applied arts and technology, sets out more specific details on the restrictions and conditions on college banking, investments and borrowing requirements, including the process for colleges requesting approvals under Section 28 of the *Financial Administration Act* and for requesting long-term financing from the Ontario Financing Authority (the OFA). College subsidiaries and other college controlled entities are also subject to this Operating Procedure unless excluded from some or all of the provisions of the procedure by written permission of the Minister of Training, Colleges and Universities. Some of the funds the college manages may also be subject to the *Trustee Act*.

Glossary

The terms used in this document that are defined in the Binding Policy Directive, have the same meaning as set out in the Binding Policy Directive, unless otherwise specified.

Background

On June 21, 2007, Treasury Board approved a framework for financing public bodies that are consolidated on the Province of Ontario's financial statements, including colleges, mandating the OFA to provide long-term financing to public bodies. Upon recommendation of the Minister of Training, Colleges and Universities, and with the approval of the Minister of Finance, the OFA will now lend directly to colleges that require long-term financing. Such financing is subject to the requirement that the borrowing college agree in writing with the OFA that the Minister of Finance is, pursuant to section 23 of the *Capital Investment Plan Act, 1993*, entitled to deduct from money appropriated by the Legislature for payment to the college amounts equal to any amounts that the college fails to pay to the OFA on account of the indebtedness (the "intercept").

In June 2008, the OFA and the Ministry of Training, Colleges and Universities entered into a Memorandum of Understanding setting out their respective roles and responsibilities with respect to college financing arrangements, approvals pursuant to Section 28 of the *Financial Administration Act*, and OFA financing, and the mechanism for invoking the intercept.

Upon the receipt of advanced notice from a college, the Ministry has agreed to promptly notify the OFA and will share with the OFA as early as possible in the process, all

pertinent information which relates to and supports the Request, including the requirements set out below. The Ministry will assist in providing the OFA with such documentation as it may require from time to time by confirming that the Request is authorized by the college board of governors and that the loan agreement or other financing arrangement is signed by an authorized officer or employee of the college.

The Ministry will assist the OFA in obtaining any further documentation or information from the college necessary for the OFA and the Minister of Finance or designate, as appropriate, to evaluate the request.

The Ministry will send a formal letter or memorandum from the Minister to the Minister of Finance, recommending that the Minister of Finance approve the Request based on the detailed analysis of Ministry staff. The OFA then undertakes its own analysis, taking into consideration the Minister's recommendation and presents its own recommendation to the Minister of Finance. The final approval decision lies with the Minister of Finance.

Annual Borrowing Plan

In December of each year, the Ministry will ask colleges to provide it with an annual borrowing plan, as the Ministry is required to submit the college annual borrowing plan to the OFA by February 15th. The plan will contain the best information available to the college regarding their following fiscal year's annual borrowing plan and will include:

- I. the total financing requirements (both long term and construction) for the coming fiscal year including the amount of any OFA loans that the college is expecting to request in the coming fiscal year;
- II. the expected block closing date by which such financing including OFA loans is expected to be in place; and
- III. the specific purpose(s) of the financing requirements, including the purposes(s) for the OFA loans to be requested.

The annual borrowing plan template is attached as [Appendix A](#).

Requirements for Requesting Section 28 Approval and Requesting Financing from the OFA

Requesting Section 28 Approval for Non-OFA Financing

1. A college must provide advance notice to the Ministry of its intention to make a Request (by email, fax or mail to the Director, Postsecondary Education Finance and

Information Management Branch), and provide the Ministry with the following information at least 90 days prior to the date approval is required unless otherwise agreed to by the OFA in writing:

- 1.1 Purpose of the loan or other financial transaction;
 - 1.2 Bank term sheet, discussion paper or draft loan agreement for proposed loan or borrowing; Original loan agreement including any amendments if approval is for a renewal.
 - 1.3 Such documentation as is acceptable to the OFA confirming that the loan request or other financial transaction, the amount of the loan request or other financial transaction and the authority to enter into the loan agreement or other financial transaction is authorized by the College board of governors. Include:
 - a) a motion or resolution signed by the college board chair indicating the total requested amount, authorizing the college to borrow such amount and to enter into a loan agreement or other financial transaction; or
 - b) if a board motion or resolution is not available, a letter to the Minister signed by the college board chair indicating the total requested amount, authorizing the college to borrow such amount and to enter into a loan agreement or other financial transaction (see item 2 below)
2. Notwithstanding the advance notice, the College also must make a formal Request in writing addressed to the Minister of Training, Colleges and Universities in care of the Director, Postsecondary Finance and Information Management Branch, Ministry of Training, Colleges and Universities, or such other Ministry official as advised by the Ministry, specifying the nature of the Request and confirming or modifying as the case may be, the information provided with the advance notice. This letter should include the loan amount and be signed by an authorized officer or employee of the college. If no signed board motion is available, this letter should be signed by the college board chair.

Requesting Section 28 Approval and Financing from the OFA

1. A college must provide advance notice to the Ministry of its intention to make a Request and the nature of the Request (by email, fax or mail to the Director, Postsecondary Education Finance and Information Management Branch), and provide the Ministry with the following information by the application deadline of the

appropriate block closing schedule, which at any rate will be at least 90 days prior to the date financing is expected unless otherwise agreed to by the OFA in writing:

- I. Purpose of the loan or other financial transaction;
- II. Type of borrowing sought, requested loan amount and repayment term;
- III. Business case outlining the following:
 - a) Detailed description of the project including all components of the project and breakdown of project costs (see [Appendix B](#));
 - b) project timelines including construction start date, substantial completion date and requested loan start date;
 - c) total capital cost of the project;
 - d) cash flow projections detailing all sources and uses of cash that cover the entire repayment term of the requested loan. For capital projects, cash flow projections should cover not only the construction period but should also include operating revenue and expenses for the entire repayment term of the loan (see [Appendices C and D](#)); and
 - e) description of key business case assumptions and risk factors in respect of cash flow projections;
- IV. College's most recent audited financial statements, business plan and budget if not already submitted to Ministry;
- V. Such documentation as is acceptable to the OFA confirming that the loan request, the amount of the loan request and the authority to enter into the loan agreement is authorized by the College board of governors. Include:
 - a) a motion or resolution signed by the college board chair indicating the total requested loan amount, authorizing the college to borrow such amount from the OFA and to enter into a loan agreement; or
 - b) if a board motion or resolution is not available, a letter to the Minister signed by the college board chair indicating the total requested loan amount, authorizing the college to borrow such amount from the OFA and to enter into a loan agreement (see item 2 below)
- VI. If government grants and/or student fees/levies are to be used for loan repayment, provide projections on government grants and/or enrolment

for the entire repayment period of the loan. If collateral is to be pledged, identify what it is.

- VII. If the college has other outstanding long-term debt, complete the outstanding debt table in Appendix E, including the current request and capital leases.
 - VIII. Other supporting documents or information that may be required, depending on the specific circumstances of the request.
2. Notwithstanding the advance notice, the College also must make a formal Request in writing addressed to the Minister of Training, Colleges and Universities in care of the Director, Postsecondary Finance and Information Management Branch, Ministry of Training, Colleges and Universities, or such other Ministry official as advised by the Ministry, specifying the nature of the Request and confirming or modifying as the case may be, the information provided with the advance notice. This letter should include the loan amount and be signed by an authorized officer or employee of the college. If no signed board motion is available, this letter should be signed by the college board chair.

Capital Leases

Section 28 approvals must be requested for all capital leases. The above Section 28 process (see Requesting Section 28 Approval for Non-OFA Financing) must be followed where the college proposes to enter into a capital lease. A copy of the proposed capital lease must be provided. A Master Capital Lease Agreement is to be used by colleges when negotiating capital leases (please contact the Ministry for the most recent version of this agreement). However, since it is usually more cost-effective to borrow from the OFA to purchase equipment rather than leasing, any request to approve a capital lease would need to demonstrate what financial benefits the College is receiving in return for paying more.

Guarantees

The above process must also be followed where the college proposes to guarantee borrowing by another person or entity. In addition to the information and documentation to be provided respecting the college's debt and the debt to be guaranteed, a copy of the proposed guarantee is required.

Other Financing

Other types of Section 28 approvals and financing requests (such as indemnities or other contingent liabilities) will be addressed as the Ministry receives them and are subject to the same requirements. Additional information may be requested depending on the nature of the Request.

Reasonable efforts will be made by the Ministry and the OFA to respond to a Request within ninety days on average. Careful attention to the detail requested above will facilitate a Request being dealt with within this timeframe. Delays can be expected if there is a need to check information because of inconsistencies or because requested data have not been submitted. Exceptional circumstances may also result in delays.

OFA Approval Process

The OFA processes requests for Section 28 and OFA financing approval using block closing dates three times a year. Requests are to be received by the appropriate application deadline. The OFA will not finalize a request until the Minister has given written support of the request. The Ministry of Training, Colleges and Universities will fax a copy and send the original Section 28 approval to a college to retain for its records as soon as documents become available from the Ministry of Finance.

If a Section 28 Request is approved by the Minister of Finance, the OFA will prepare the loan agreement and send it to the college for its review. The college will be required to prepare and execute any closing documents that the OFA may require. The OFA will deliver the loan agreement to the College for signing. After the loan agreement is signed by the college, the OFA will execute the loan agreement and provided that all conditions and precedents as set out in the loan agreement are met, the OFA will advance the loan pursuant to banking instructions provided by the College.

For further information regarding this Operating Procedure, click on the Contact link to consult with the appropriate Ministry contact in the Contacts section on the Colleges of Applied Arts and Technology website (<http://caat.edu.gov.on.ca>).

Appendix A: Annual Borrowing Plan Template

College Annual Borrowing Plan				
	TOTAL LONG-TERM DEBT OUTSTANDING AT MARCH 31, 2008	2009-10 Borrowing Requirements from the OFA	Purpose of 2009-10 Borrowing	Month in Which Financing Will Be Required
College Name	\$	\$		
TOTAL				
NOTE: Total long-term debt includes current portion of long-term debt and capital lease obligations				

Appendix B: Total Project Cost Template

	DESCRIPTION	MATERIAL (\$)	LABOUR (\$)	TOTAL (\$)	%
1)					
2)					
3)					
4)					
5)					
6)					
7)					
8)					
9)					
10)					
11)					
12)					
	TOTAL PROJECT COST (\$)				

Appendix C: Cash Flow Templates

FINANCIAL FORECAST FOR OPERATING PERIOD						
Assumptions for Operation Period all assumptions should clearly be shown						
	YEAR 1	YEAR 2	YEAR N
	REVENUES					
	Grants					
	Fees					
	Rental Revenues					
	Others Revenues (Please specify)					
a	Total Revenues					
	EXPENSES					
	Salaries&Benefits					
	Utilities (heat, light, water)					
	Maintenance					
	Security					
	IT					
	Operation					
	Refurbishments					
	Other Expenses (please specify)					
b	Total Expenses					
c=a-b	Net Operating Income/Loss					
d	Interest Payments on Loan					
e=c-d	Net Cash Flow					

LOAN REPAYMENTS						
Assumptions for Loan Repayments all assumptions should be clearly shown						
	YEAR 1	YEAR 2	YEAR N
Principal						
Interest						
Total Payment						

Appendix D: Source of Financing Template

	DESCRIPTION	TYPE OF FINANCING	CONFIRMED/ UNCONFIRMED	AMOUNT (\$)	%
1)	Internal Sources				
2)	Provincial Grants				
3)	Federal Grants				
4)	Fundraising/Donations				
5)	OFA Financing Requested				
6)	Other Funding Sources (specify)				
	TOTAL PROJECT FUNDING (\$)				

Appendix E: Outstanding Debt Template

xxxx College Summary of Borrowing As at March 31, 20xx										
	Purpose	Borrowing Date	Initial Loan Amount	Rate	Payment Amount	Payment Frequency	Amortization	Term	Maturity Date	Debt Outstanding at March 31, 20xx
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13										
	<i>Principal portion of term loans repayable over the next five years:</i>									\$0
	Year 1 (current year)								Less Current Portion	\$0
	Year 2									
	Year 3									
	Year 4									
	Year 5									
			\$0							
	Obligations Under Capital Leases									
	Year ending March 31:									
	Year 1 (current year)									
	Year 2									
	Year 3									
	Total minimum lease payments		\$0							
	Less amount representing interest									
	PV of net minimum capital lease payments		\$0							
	Current portion of obligations under capital leases									\$0