Oregon State University
Liquidity Management Policy

I. PURPOSE

The Oregon State University's Board of Trustees (Board) desires to establish a liquidity management policy. This policy serves an important governance function by identifying sources of liquidity, establishing and assigning responsibilities for managing the institution's liquidity needs, outlining the university's philosophy on liquidity management, and providing a framework for utilization of short-term debt.

II. SCOPE

Within the context of this document, liquidity is defined as cash and cash equivalents, liquid investment balances, access to cash (e.g., lines of credit, letters of credit), and the convertibility of assets to cash in order to meet operating and financial needs during the operating cycle. The Liquidity Management Policy is meant to work in conjunction with the Board-approved Debt, Internal Bank, Investment, and other policies that impact financial risk management. This policy explicitly excludes quasi-endowment, endowment, retirement funds, and OSU Foundation funds, as these are not liquid and available for operating purposes.

III. OBJECTIVE

The objectives of this policy are to:

i. Outline the university's philosophy for optimum liquidity management,
ii. Define the university's primary objective for liquidity management, and
iii. Identify a framework for utilization of short-term debt.

IV. PHILOSOPHY

Optimal liquidity management will align financial decisions with the university's mission and will consider the following:

i. Does the action align to the university's mission?
ii. What is the overall level of financial health?
iii. Are resources sufficient and flexible enough to support the mission?
iv. Does financial asset performance support the strategic direction?
v. Do operating results indicate the university is operating within available resources?
vi. Is debt managed strategically to advance the mission?

V. OVERSIGHT

The university vice president for finance and administration is responsible for policy compliance, periodic review, and all liquidity management activities for the university. On at least an annual basis, the vice president for finance and administration is charged with reviewing the university's Board-approved financial metrics in conjunction with oversight of related policies and will report any issues to the Board's Finance & Administration Committee.

VI. LIQUIDITY MANAGEMENT

The primary objective of liquidity management is to maintain a cash position that allows the university to meet daily obligations without incurring the opportunity costs that arise from having excess cash. It is not uncommon for the university to experience a mismatch between the timing of expenditures and receipt of funds to pay those costs. The more unpredictable the university's cash flows are, the higher the required levels of liquidity that must be maintained.

Liquidity Sources

The university will attempt to diversify its various sources of liquidity by liquidity type. Diversification of cash and investments is managed pursuant to the Internal Bank Policy and the Investment Policy. Issuance of debt as sources of liquidity are managed by the Debt Policy to align with the university's strategic plan.

The university categorizes liquidity sources as committed or uncommitted. Committed funding represents funding available to the university as well as external funding sources where the provider has committed to providing funding, regardless of circumstance. Uncommitted funding are sources of liquidity where the provider is under no commitment to fund. The university further categorizes committed funding as restricted or unrestricted.

The university's liquidity sources include the following:

- Operating and non-operating revenues,
- Cash and liquid investment balances,
- External long-term debt proceeds,
- External short-term debt proceeds, and
- Gifts, in the form of cash or pledges.

Liquidity Uses

Uses of university liquidity are determined per the university fiscal management governance structure as approved within the budget approval process and delegations of authority. Approved use of liquidity is for operating and capital purposes. Operating expenses are paid using the appropriate funds aligned to the university mission and compliant with applicable statutes and university policies and standards. The Internal Bank Policy defines the funds available for internal lending through the Central Loan Program (Internal Bank Loan).

Liquidity Measures

The university must balance liquidity requirements with its investment objectives and its cost of external borrowing. The university intends to manage its liquidity needs by considering its entire asset and debt portfolio, rather than managing liquidity solely on an issue-specific basis. This approach permits institution-wide evaluation of desired liquidity requirements and exposure.

The Board has approved acceptable tolerance ranges for five financial metrics, as follows:

Financial Metrics	Operating Ranges	Purpose
EBIDA (Earnings before Interest, Depreciation and Amortization) Margin	8.0% - 18.0%	Measures the ability to repay debt from operating revenue as well as invest in academic programs and facilities to advance its strategic objectives
Total Cash and Investments to Operating Expenses	0.75 – 1.25 times	Measures level of available reserves to meet the university's operating expenditures
Total Cash and Investments to Adjusted Debt	0.5 – 2.0 times	Debt capacity ratio measuring ability to repay debt and pension obligation with available financial resources
Debt Service Coverage	1.5 - 3.5 times	*EBIDA over Annual Debt Service* - Measures the sufficiency of operations on a cash flow basis to cover debt service
Fund Balance	10% - 20%	*Ending Education and General fund balance as a % of revenues* – Measures the available operating balance relative to the size of the Education and General operations

Financial metrics provide a historical picture to compare current results and model expected future performance. The approved acceptable tolerance ranges provide the parameters of performance expectations. A trigger occurs when the metrics fall outside these ranges. Triggers are intended to provide warning signs of events that could adversely impact the university's liquidity. The vice president of finance and administration will review trigger events when metrics fall outside of these ranges and develop a risk mitigation plan, if necessary.

Ratio analysis and financial metric ranges represent target capital structure measures. The capital structure is how an organization finances its overall operations and growth by using different sources of funds. Debt comes in the form of short- or long-term bonds issued or notes payable. The proportion of short- and long-term debt is considered when analyzing capital structure. Optimal capital structure lies somewhere between maximum profitability and financial burden. In practice, the optimal capital structure is a target to preserve financial flexibility.

Liquidity Risk Management

Liquidity risk is defined as an inability to meet payment obligations in a timely manner when they become due and the risk that assets may not be convertible into cash when needed.

Liquidity risk is divided into three categories:

1) Operating liquidity risk occurs when the university cannot fund its operatingexpenses due to insufficient liquid cash holdings.
2) Financing liquidity risk occurs as a result of external financing activities and the potential for those financings to come due before maturity.
3) Market liquidity risk occurs when the university is unable to convert assets into cash without significant losses.

Liquidity risk is addressed in part through annual monitoring and reporting of the Primary Reserve Ratio, which reflects expendable net assets to operating expenses.

The university recognizes that it may be exposed to interest rate, third-party credit, and other potential risks in areas other than direct university debt (e.g., counterparty exposure in the investment portfolio) and, therefore, exposures are considered on a comprehensive university-wide basis.

VII. USE OF SHORT-TERM DEBT

A key goal of the university's Internal Bank is to manage available cash and investments to ensure that the university has sufficient cash to provide for routine and emergency operating expenses. The Internal Bank will align revolving debt paydown with the corresponding capital project's Internal Bank Loan repayments.

In order to maintain or increase liquidity, the university will use proceeds available from short- term debt for financing of capital projects under the following conditions:

1. The proceeds are used to provide interim financing for a capital project with a committed source of funding (e.g., in anticipation of issuance of long-term debt, receipt of certain philanthropic gifts, or grants for university projects);
2. The cost of the funds available under a line of credit are equal to or lower than
    a. the university's investment return (i.e., opportunity cost); and
    b. alternative funding options; and
3. The use of the proceeds is compliant with applicable statutes and university policies and standards.

Document History

- Adopted by the Board of Trustees on June 2, 2017
- Amended by the Board of Trustees on October 8, 2021