BOV-010 Liquidity Management

Effective Date Friday, November 13, 2015

Status Final

Last Revised Wednesday, December 6, 2017

Policy Type Board of Visitors

Contact Office Treasury Management

Oversight Executive
Executive Vice President and Chief Operating Officer

Applies To Academic Division and the Medical Center. [Excludes University-affiliated foundations.]

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Policy Statement

Reason for Policy

The University desires to establish a liquidity management policy that documents its liquidity management practices.

Definition of Terms

Terms

Description There are no terms that require definition.

Policy Statement

LIQUIDITY MANAGEMENT POLICY

WHEREAS, the University manages its liquidity to provide for sufficient cash flow to support operations, to satisfy the remarketing risk for its put-able debt, and to support its credit ratings; and

WHEREAS, the University created a Liquidity Management Policy, approved by the Board of Visitors in November 2015, to formalize and establish parameters for its liquidity management activities; and

WHEREAS, the University wishes to revise its existing Liquidity Management Policy to introduce language to address liquidity rebalancing needs and update the policy reporting requirements;

RESOLVED, the Board of Visitors approves the University’s revised Liquidity Management Policy, presented as an Appendix.

Appendix

University of Virginia
Liquidity Management Policy
Amended December 8, 2017

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I. Overview

This policy documents the University of Virginia's liquidity management guidelines. Within the context of this document, liquidity is defined as cash and cash equivalents, access to cash, and the convertibility of assets to cash in order to meet operating and financial needs during the operating cycle.

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 categorized into three risk types:

- *Operating liquidity risk* occurs when the University cannot fund its operating expenses due to insufficient liquid cash holdings.
- *Financing liquidity risk* occurs as a result of external financing activities and the potential for those financings to come due before maturity (e.g., commercial paper, put-able debt, credit lines).
- *Market liquidity risk* occurs occurs when the University is unable to convert assets into cash without significant losses

This policy serves an important governance function by providing a framework to define liquidity, establishing and assigning responsibilities for managing the institution's liquidity needs, evaluating the appropriate level of liquidity for the institution, and outlining sources of liquidity and procedures to access liquidity when needed.

The liquidity policy works in tandem with the University's Board-approved Debt Policy, Working Capital Investment Policy, and Interest Rate Risk Management Policy.

II. Scope and Objectives

Scope

The policy governs University-wide liquidity management, including the Academic Divisions and the Medical Center. The policy does not govern liquidity management at University-affiliated foundations, including the University of Virginia Investment Management Company ("UVIMCO").

Objectives

The policy exists to provide a framework under which the University seeks to achieve its liquidity management goals. The goals include providing sufficient liquidity to support the:

- cash flow needs of the annual operating cycle
- remarketing risk for the University's put-able debt
- University's credit ratings

III. **Oversight**

Oversight

The Office of the Executive Vice President and Chief Operating Officer (EVP-COO) is responsible for implementing this policy and all liquidity activity for the University. This policy and any subsequent, material changes to the policy will be approved by the University's Board of Visitors.

The University's Office of the Treasurer manages liquidity and works in close coordination with the Medical Center and UVIMCO to manage liquidity and associated risks.

The University meets periodically with UVIMCO to review the policy and discuss liquidity requirements.

IV. **Liquidity Management**

The Office of the Treasurer manages liquidity to ensure access to sufficient cash during normal and stressed liquidity environments. The University meets these needs with a combination of internal and external liquidity. The University categorizes liquidity sources as committed or uncommitted. Committed funding represents funding available to the University (e.g., cash and short term investments) as well as external funding sources where the provider has committed to providing funding, regardless of circumstance (e.g., credit lines). Uncommitted funding are sources of liquidity whereby the provider is under no commitment to fund (e.g., commercial paper buyers).

Liquidity Sources

The University's liquidity sources include the following:

- Operating revenues
- Cash and liquid investment balances (including University reserves)
- Commercial Paper
- Operating Credit Lines
- Dedicated Credit Lines supporting put-able debt

Liquidity Uses

Liquidity is primarily used to satisfy (1) operating expenses, and (2) non-operating, episodic needs. Non-operating needs may include irregular investment or financing needs. Episodic needs may also include unplanned stresses to operating revenues (e.g., state appropriation reductions, government shutdowns, market downturns, etc.) or expenses.

Liquidity uses include both operating and funding needs, such as:

- Operating expenses
- Planned debt service
- Unplanned put-able debt maturities

Liquidity Targets

Days Cash on Hand

Liquidity accessible within one month divided by daily operating expenses: Target >= 180 days

Day's cash on hand ("DCH") is a measure of the University's contingent liquidity. It measures how many days of operating expense an entity can support with its liquidity. DCH is defined as liquidity accessible within one month divided by daily operating expenses. DCH is one of the metrics

measured by the rating agencies and the University seeks to target a level of DCH that supports operations, in addition to supporting ratings goals.

The University also targets a highly liquid DCH (cash & cash equivalents/daily operating expenses) of 15 days, typically occurring at the low point of its annual cash flow cycle.

Daily Liquidity as a Percent of Variable Rate Debt

Cash and liquidity divided by outstanding put-able debt: Target >= 1.5x

While having put-able debt outstanding, the University will maintain sufficient unrestricted liquid investments and/or sources of liquidity for maintaining the highest debt ratings. Unrestricted sources of liquidity may be modified and/or replaced during the life of the put-able debt in such ways that are and the University and that are within debt document parameters.

Rebalancing

At least annually, the University will review its liquidity profile and targets to determine if its liquidity position requires rebalancing. The University will holistically consider what, if any, adjustments to make to its cash sources and uses in order to rebalance its liquidity position. This may include modifications through the annual budgeting process, existing capital and operating plans, and use of operating and other reserves. To the extent that such rebalancing requires a withdrawal of strategic operating reserves from the Strategic Investment Funds held at UVIMCO, such withdrawals will whenever possible be proposed to and approved by the BOV as part of the approval of the annual budget. Should unplanned exigencies require the unbudgeted withdrawal of reserves outside the annual process such withdrawals may be made with the prior approval of the President, the Rector, and the Chair of the Finance Committee.

V. **Risk Management**

Monitoring and Reporting

The Office of the Treasurer is responsible for managing the daily cash position of the University, performing cash flow forecasting and variance analyses, and working with University units to manage aggregate institutional liquidity. Key liquidity reports include:

Quarterly

Treasury Report - highlighting, among other things, cash and investment holdings as well as liquidity ratios.

Stress Testing - listing the following items:

- sources and uses under normal and stressed environments
- stress tests
- liquidity ratios

Annually

Cash Flow Forecast - used to project and manage cash flows throughout the year and support operating cash flow decisions, including the management of DCH targets.

The reports listed here may be amended from time to time as needed at the discretion of the EVP-COO.

Liquidity Source Diversification

The University attempts to diversify its various sources of liquidity. Diversification is achieved via liquidity source (e.g., cash, credit lines, commercial paper) and counterparty (e.g., credit lines with several counterparties, commercial paper issued by more than one dealer).

Diversification of cash and investments is in accord with the diversification guidelines in the University's Working Capital Investment Policy and UVIMCO's Investment Policy Statement.

Liquidity Triggers

Triggers are intended to provide warning signs of events that could adversely affect the University's liquidity. The occurrence of a trigger event will be brought to the attention of the EVP-COO, and discussed with the Chair of the Board of Visitors' Finance Committee, and result in the development of a risk mitigation plan, if necessary. Triggers include, but are not limited to:

- material changes in committed or uncommitted liquidity sources
- material deviations from DCH targets
- credit ratings pressure resulting from liquidity ratios
- difficulty remarketing put-able debt
- stress on distributions or available distributions from UVIMCO
- stress on capital and bank markets affecting the ability to draw on operating lines or issue commercial paper
- downgrade of a counterparty's ratings
- material changes in the liquidity profile of UVIMCO's short-term or long-term pools

Related Information

BOV-007: Working Capital Investment
BOV-015: University of Virginia Debt Policy
BOV-016: Interest Rate Risk Management

Policy Background

Reference: Liquidity Management Policy, BOV Minutes dated December 6-8, 2017, pg. 4 and Appendix. Liquidity Management Policy and Authorization to Enter Into Operating Lines of Credit, BOV Minutes dated November 12-13, 2015, pgs. 9914 – 9916, Appendix.

Major Category Board of Visitors

Revision History

Revised 12/6/17; Updated code reference 10/27/16.

Category Cross Reference

Finance and Business Operations

Approved By Finance Committee and by the Board of Visitors.

Approved Date Friday, November 13, 2015