



Policy Title: Financial Liquidity Policy

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Responsible Executive: Associate Vice President of Finance

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Responsible Office: Financial Services

Financial Liquidity Policy

Policy Statement

Maintaining sufficient financial liquidity in the short-term and planning for long-term financial obligations of the University are critical to the financial health of Baylor University. This policy establishes guidelines for measuring and monitoring liquidity and for determining appropriate uses of excess cash.

Reason for the Policy

The purpose of the policy is to assure that the University maintains sufficient liquidity to meet reasonably expected cash needs over both short-term and long-term planning horizons and to enable strategic investments which further the University's mission.

Individuals/Entities Affected by this Policy

Financial Services Office
Planning & Budget Office
Business Officers
All University Departments

Exclusions

NONE

Definitions

These definitions apply to terms as they are used in this policy.

Bullet Maturities	Bullet maturities, or bullet payments, represent single principal payment debt instruments.
Cash & Cash Equivalents	The most liquid component of the University's assets, including bank deposits and near-cash investments, such as money market funds, with a 90-day or less maturity and readily converted to cash.
Endowment	Resources restricted in perpetuity, either by donors or by the Board of Regents. Endowment funds are managed by the Chief Investment Officer, through the Baylor University Fund (BUF) and are not subject to this policy.
Internal Loan	A loan borrowed from University working capital by a department which must be repaid, with interest, on an established basis, from the department's resources. An internal loan provides an alternative to external financing for capital projects and equipment acquisitions, when resources are available.
Liquidity	Ability of the University to meet its financial obligations when due through the disposition of its short-term assets.
Long-term Investments	Investments with longer than a 12-month maturity horizon.
Short-term Investments	Investments with a 4- to 12-month maturity horizon.
Sinking Fund Reserves	Reserves established to satisfy bullet maturities on external debt.
Secured Overnight Financing Rate	Abbreviated SOFR; a broad measure of the cost of borrowing cash overnight by large institutional banks, collateralized by Treasury securities, this rate is published daily at approximately 8 am (Eastern Time) on the Federal Reserve Bank of New York's (FRBNY) website.

Contacts

Subject	Contact	Telephone	Office email/web site
Policy and Procedures Application	AVP – Treasury	254-710-8775	https://financialservices.web.baylor.edu

Responsibilities

Financial Services	The Financial Services office has primary responsibility for monitoring and managing the University's liquidity and ensuring that resource needs are met.
Planning & Budget Office	The Planning & Budget Office is responsible for forecasting 1- to 5-year operating and capital budgets for the University.
Business Officers	Responsible for preparing annual projections of spending across operating and non-operating funds and anticipating long-term funding needs for facilities, equipment, and other fixed assets.

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Principles

Proper liquidity management will use the following strategies to project and monitor short-term and long-term resource needs:

- A comprehensive, all-funds annual operating budget
- Multi-year operating and capital budget projections, including timing of capital projects and major equipment purchases
- Use of cash forecasting tools to identify monthly patterns in cash receipts and cash disbursements
- Projections of future cash balances based on other forecast tools
- Measurement tools to monitor critical metrics impacting credit ratings
- Daily monitoring and reporting of cash balances

Liquidity Pools

For liquidity management purposes, financial resources, excluding endowment balances, will be divided into three liquidity pools:

Short-term pool: Resources that are anticipated to be needed for normal operating and capital expenditures within a 12-month period. The objectives of investments in the short-term pool are to maintain sufficient liquidity to meet obligations, maximize income, and minimize risk.

Acceptable investments in the short-term pool:

- Bank Deposits
- Money Market Funds
- Liquidity loans to the BUF of 12-months or less
- Commercial Paper with maturities of 12-months or less
- US Treasury Securities with maturities of 12-months or less

Intermediate-term pool: Resources that are anticipated to be needed within a 1-to-5 year period. The objectives of investments in the intermediate-term pool are to preserve principal, maximize returns, and avoid undue risk.

Acceptable investments in the intermediate-term pool:

- Commercial Paper and Corporate Bonds with maturities of 1 to 5 years
- US Treasury and US Government Agency Securities with maturities of 1 to 5 years
- Internal Loans with amortization periods not exceeding 5 years. No more than 50% of the intermediate-term pool may be invested in internal loans.

Long-term pool: Resources that are not expected to be needed for operating purposes within a 5-year period and are designed as permanent core resources.

Acceptable investments in the long-term pool:

- Internal Loans with amortization periods of greater than 5 years. No more than 70% of the long-term pool may be invested in internal loans.
- Baylor University Fund (BUF)

Liquidity Pool Targets

No less than annually, the AVP – Treasury will assess current resource needs, verify the adequacy of resources to meet short-term needs, and update liquidity pool targets.

Short-term Pool: The short-term pool will be equal to 33.3% (four months) of operating and capital expense projections plus expected internal loan disbursements and bullet payments for the fiscal year. The short-term target balance must also meet any existing debt covenant requirements.

Intermediate-term Pool: The intermediate-term pool will be equal to 20-25% of remaining financial resources, after deducting the short-term pool target balance. The intermediate-term pool allocation may be adjusted to include sinking fund balances for bullet payments due within five years.

Long-term Pool: The long-term pool will be equal to remaining financial resources, after deducting the short-term and intermediate-term pool target balances.

Lines of Credit

Baylor's Debt Policy authorizes the use of short-term debt, including commercial paper and lines of credit, as a means of interim financing. Such short-term debt instruments should be considered an additional source of intermediate-term liquidity, as permitted by the Debt Policy, to fund internal loans. Particularly, short-term debt should be considered as a funding source for bridge loans, when financially advantageous. Decisions to use short-term debt for this purpose should consider the cost of funds, the opportunity cost of foregone investments, and an evaluation of all internal loan needs over the repayment period.

Conflict of Interest

Officers or employees involved in liquidity management shall refrain from personal business activity that could conflict with the proper execution of this policy or that could impair their ability to make impartial decisions. Disclosure shall be made of any material financial interests in financial institutions that conduct business with the University or personal financial interests or investments that could be related to the performance of the University's portfolio that could reasonably be considered a conflict of interest. These actions and disclosures are to comply with the [Baylor Conflict of Interest Policy, BU-PP 800](#).

Investment Guidelines

The investment guidance to be applied in managing the cash and investments under this policy can be summarized by the “prudent person” standard, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived.”

The credit rating requirements detailed on the individual short-term investments below reference the minimum allowable from the major credit rating agencies with the order of the rating listed as Standard & Poor’s, Moody’s, and Fitch Ratings.

Demand deposit accounts will be maintained at a financial institution or institutions, as necessary, for Baylor’s efficient operations. From time to time, funds may be held in demand deposit accounts in excess of the FDIC insured limits as long as the financial institution holding the funds maintains a credit rating of at least A/A2/A and has a minimum capitalization level of \$10 billion.

The following types of investments may be used to invest funds under this policy:

US Treasury Obligations

Direct Treasury obligations of the US Government for which the full faith and credit of the US Government is pledged or guaranteed.

Government Sponsored Enterprises

Direct obligations of US Government sponsored enterprises (agencies) limited to Federal Home Loan Bank, Federal Farm Credit Bank System, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation.

Money Market Funds

Pooled investment funds that are comprised primarily of investments in government securities, agency securities, or high-quality corporate obligations.

Certificates of Deposit (CDs)

CDs with a principal amount of no more than the FDIC insured limit in any one financial institution. CDs with a principal amount in excess of the FDIC insured limit in a financial institution with a credit rating at time of purchase of at least A/A2/A. All FDIC-insured deposit programs are permitted at financial holding companies.

Corporate Obligations

Commercial paper with a credit rating at time of purchase of at least A-2/P-2/F-2. Corporate bonds with a credit rating at time of purchase of at least A/A2/A.

Generally, investments regulated by the Investment Company Act of 1940 are comprised of permitted investments listed above and may be used to invest funds under this policy.

Internal Loan Guidelines

Five types of internal loans will be considered: equipment loans, bridge loans, construction/renovation loans, and nonstandard loans.

BUF Liquidity Loans

BUF Liquidity loans may be used to meet cash flow needs for investment opportunities in the BUF.

Loan Amounts	\$1,000,000 minimum; \$20,000,000 maximum
Amortization Term	Term cannot exceed 12 months
Interest Rate	<ul style="list-style-type: none">• Interest rate will be fixed for the life of the loan• Rates are based on SOFR• Rates are calculated each January and July based on the daily average rate for the prior 6 months: https://www.newyorkfed.org/markets/reference-rates/sofr
Debt Service	Principal due at maturity

Equipment loans

Equipment loans may be used for the purchase of university equipment.

Loan Amounts	\$100,000 minimum; \$1,000,000 maximum
Amortization Term	Term cannot exceed depreciable life of the asset being financed <ul style="list-style-type: none">- Technology: 3 – 5 years- Vehicles: 5 years- Equipment: 5 – 7 years
Interest Rate	<ul style="list-style-type: none">• Interest rate will be fixed for the life of the loan• Rates are based on SOFR plus 100 basis points• Rates are calculated each January and July based on the daily average rate for the prior 6 months: https://www.newyorkfed.org/markets/reference-rates/sofr
Debt Service	Monthly, beginning the month after the month in which the asset is placed into service

Note: For compliance purposes, interest on loans to a recharge center will be charged to the school or department which sponsors the center.

Bridge loans

Bridge loans may be used to meet cash flow needs for capital projects which include significant donor pledges.

Loan Amounts	\$1,000,000 minimum; \$10,000,000 maximum
Amortization Term	Term cannot exceed pledge payment period
Interest Rate	<ul style="list-style-type: none"> • Interest rate will be fixed for the life of the loan • Rates are based on SOFR • Rates are calculated each January and July based on the daily average rate for the prior 6 months: https://www.newyorkfed.org/markets/reference-rates/sofr
Debt Service	Payments are due as pledge payments are received. Any shortfall at the end of the pledge payment period, will be converted to a Construction/Renovation loan as described below.

Note: For compliance purposes, interest on bridge loans will be charged to the school or department which sponsors the capital project.

Construction/Renovation loans

Construction/Renovation loans are used to fund the construction of new facilities or the renovation of existing university facilities.

Loan Amounts	\$500,000 minimum; \$20,000,000 maximum
Amortization Term	Term cannot exceed depreciable life of the asset being financed <ul style="list-style-type: none"> - Renovations: 10 – 15 years - New Construction: 15 – 30 years
Interest Rate	<ul style="list-style-type: none"> • Interest rate will be fixed for the life of the loan • Rates are based on SOFR plus 150 basis points • Rates are calculated each January and July based on the daily average rate for the prior 6 months: https://www.newyorkfed.org/markets/reference-rates/sofr

Debt Service	Monthly, beginning the month after the month in which the asset is placed into service
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Nonstandard loans

Loan requests which fall outside the parameters described above will be reviewed by the Chief Business Officer (CBO) with terms determined on a case-by-case basis.

Internal Loan Request Procedure

The department submits the following information to the AVP – Treasury:

- Description of the asset(s) or project to be financed.
- Amount of loan and repayment period requested, including anticipated start date.
- Alternative funding options considered, including analysis of reserves.
- Chart string to fund debt service, if the loan is approved.

AVP – Treasury determines whether the asset/renovation qualifies for a standard internal loan and if so, determines the interest rate, term, and monthly debt service and whether sufficient resources are available to fund the loan. If so, the information is provided to the Associate VP of Planning & Budget and the Associate VP of Finance for approval. If approved, AVP - Treasury provides final loan terms to the department for acceptance.

If the request is for a nonstandard loan, the AVP – Treasury will provide the information, with recommended terms, to the Associate VP of Planning & Budget and the Associate VP of Finance for review, prior to requesting CBO approval.

Liquidity Reporting

To monitor compliance with this policy, the AVP – Treasury will prepare a quarterly liquidity report to include the following:

- Liquidity pool target balances calculated based on current year forecast
- Current liquidity pool actual balances, with variance from targets
- Prior quarter liquidity pool actual balances, with change from prior quarter to current quarter
- Allocation of holdings by category

The report will be reviewed by the Associate VP of Finance and may be provided to university leadership or the Board of Regents, as needed or requested.