



2025 Best Practices Submission

Presentation Title:

Working Capital and Liquidity Policy Development

Presenters:

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Presentation Description:

In a world of changing interest rates, enrollment, and government funding and when most universities are managed on a decentralized basis (except for liquidity and cash management), the University of Arkansas undertook a project to create a working capital and liquidity policy. The university was facing the prospect of generational turnover in its financial staff, and wanted to be able to create a policy that would provide current and future guidance to financial staff about the management of operating cash. The university developed a metric, Annual Operational Requirement, as part of the new policy. Armed with a metric to manage to, the university was able to proceed with a new perspective that could drive how much short term, intermediate, and long term assets it might need on an ongoing basis. The new policy provides it with parameters that ensure it meets its basic liquidity needs but are broad enough to provide it with flexibility during periods of interest rate changes and changes in the perception of risk. The university viewed its work on the policy as ground-breaking and an example of best practices in managing operating risk. Going forward, it has the flexibility to update the policy as its circumstances (interest rate risk, growth of operating budget) change.

Statement of the Problem:

The university has long operated its successful cash management program for working capital without a formal policy other than for permitted investments. Given the outlook for generational change and new personnel, it needed to codify both procedures and perspective to provide a future workforce with a roadmap for accountability and responsibility. A recent Deloitte study cited that liquidity was one of the greatest risks cited by Treasurers of all organizations.

Identify the Solution:

In coordinating the various calls on cash at the university (operating budget, debt for new projects, and emergencies such as COVID), senior leadership realized the university would benefit from a new policy that defined how much cash, and how liquid, the investments should be to meet its obligations. The project was driven by the Cash Management Investment Office at the university, senior university leadership, the budget office, and the building/capital facilities team. The process of developing a new policy lasted several months. By developing the framework for the new operating environment, the university has been able to incorporate AI and predictive analytics in its approach to investments and liquidity.

Implementation Timeline:

1. Background on current practices in cash management
2. Review of existing policies and regulations
3. Initial drafts of an SOP and a policy that drives the SOP
4. Review with Budget and Facilities offices
5. Review by Senior leadership and official leadership briefing
6. Formal approval

From start to finish the project took about 6 months.

Benefits & Retrospect:

The benefits are ensuring accountability for the actions of those managing the university's cash and the ability to earn more by investing in a higher percentage of longer duration investments, while maintaining a low to moderate risk profile. Another benefit was creating the concept of the Annual Operational Requirement, a metric that changes annually but consistently measures the same type of activities that drive the need for liquidity at the university. All of these developments helped to create a Next Generation approach to investments and liquidity.