TOPIC: Investment of Operating Funds

CONTEXT:
Since 1998, the University has had the authority to invest some cash balances in higher return equity and fixed income funds. This authority was expanded by legislation in 2002 to include all funds – which is now known as the Long-Term Operating Fund.

This program has been very successful. Now that the Long-Term Operating Fund has grown to nearly $600 million, it is a good time to review how the fund should be managed going forward and how proceeds should be distributed.

The recommendations below had a first reading in September 2007 and a second reading on April 4, 2008.

RECOMMENDATIONS:
To ensure continued safety of these valuable assets, the University recommends the following policies:

- A minimum of 60 days of operating cash in short-term investments
- An appropriate split between short-term and long-term cash
- A stabilization reserve of no less than 5% of the value of the Long-Term Operating Fund

To ensure the strategic distribution of these assets, it is recommended that:

- Annual transfers from the Long-Term Operating Fund are made to the President's Strategic Reserve II, only after minimum targets are reached for the short-term Operating Fund and the stabilization reserve.
- These funds can be allocated from the President's Strategic Reserve II at the President's discretion for one-time uses through the annual budget process.
- Reports are provided quarterly to both the Development and Investments Committee and the Fiscal Affairs Committee.

These are described in greater detail in the attachment.

REQUESTED OF DEVELOPMENTS AND INVESTMENT COMMITTEE:
Approval
The Ohio State University Board of Trustees  
Development and Investments Committee  
June X, 2008  

Management of Operating Funds Policy Summary  

The recommendations presented here are designed to support the following objectives:  

- Preservation of principal and purchasing power, including meeting or exceeding state requirements.  
- Maximize return of a valuable asset without jeopardizing safety of public funds.  
- Alignment with University academic and financial goals.  

In order to support these objectives, the following policies are recommended:  

**Short Term Pool** – the short term pool should be invested primarily in lower risk, more liquid instruments such as government securities and maintain a balance equivalent to at least 60 days operating cash. Once this threshold is reached, the Senior Vice President for Business and Finance will have the authority to approve investment of up to 60% of the operating funds, net of construction bond funds, in the long term investment pool.  

**Long Term Pool** – once the amount of the short term pool is determined, excess operating funds may be transferred to the long term investment pool, where they will be invested along with gifted endowment funds. In no case may the long term pool exceed 60% of the total operating funds, net of construction bond funds.  

**Interest Stabilization Fund** – in order to protect operating cash invested by the University for individual units, a reserve of 5% of the operating funds invested in the long term pool shall be maintained in the short term pool. This will assure the short term interest rate can be paid out even when returns in the long term pool fluctuate because of market conditions.  

**President's Strategic Investment Fund II** – over time, the long term pool should be expected to earn returns 3-4% above the short term pool, although this will fluctuate from year to year. The spread in yield between the short term and long term pool should be transferred annually to the President's Strategic Investment Fund II after the reserve requirement is met. If the long term investment pool has a negative spread, monies will be transferred from the President's Strategic Investment Fund II to replenish the reserve and if necessary make the long term pool whole. This fund may be used by the President at his/her discretion, but no more than 25% of the value of the fund can be dispersed in any one year. 75% of the fund should be invested in the long term pool and 25% in the short term pool.  

**Reporting** – the status of short and long term operating cash should be reported quarterly to the Integrated Financial Planning Group and the Development and Investment Committee. Allocations to and from the President's Strategic Investment Fund II be made annually after the end of the fiscal year as part of the annual current funds budget process, although mid-year adjustments could be made if warranted.  

A complete description of this policy can be found on the Business and Finance web site at http://www.busfin.ohio-state.edu/.
DRAFT

INVESTMENT OF OPERATING FUNDS

Synopsis: Approval to establish policy on investment of cash balances in operating funds.

WHEREAS the proper investment of Operating Funds is an important component of the University’s funding strategy; and

WHEREAS the attached proposal has been thoroughly vetted and reviewed by the University:

NOW THEREFORE

BE IT RESOLVED, That the attached policy be approved; and

BE IT FURTHER RESOLVED, That the Senior Vice President for Business and Finance be authorized to make the fund transfers required to implement this policy.