



Office of Treasury and Investment Management

TM SAM HOUSTON STATE UNIVERSITY

Efficiently Managing University Financial Assets: An Overview of Design, Implementation, and Results

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Abstract

Sam Houston State University undertook a significant review of its banking operations and investments in 2014. Five years later, the banking operations have been modernized to allow efficient payment processing and sophisticated fraud prevention. The University has also created separate investment pools for its operating long and operating short-intermediate assets.

The result is a banking operation that has much better scale for the future and an investment approach that has generated significant gains for the University.

Introduction to the University

Sam Houston State University (SHSU), located in Huntsville, Texas, was founded in 1879. Enrollment at SHSU exceeded 21,000 students for Fall 2018, representing continued growth on a campus where change has become the norm. The University currently offers over 80 bachelor's degree programs, over 50 master's degree programs, and 10 doctoral programs. SHSU has 7 different colleges and is currently working towards adding its 8th college, a proposed College of Osteopathic Medicine (applicant status), which is currently being reviewed for accreditation. SHSU is classified as a "doctoral research university" by the Carnegie Commission on Higher Education.. The motto of the University is "The Measure of a Life is its Service," which resonates deeply with the faculty, staff, and the student community.

The Problem

In 2014, the University had just recently completed conversion from an in-house ERP system to a third-party solution (Banner by Ellucian). Although the ERP system was significantly upgraded, the University's banking infrastructure had not been updated for many years. The first problem we needed to tackle was identifying a national banking partner that could accommodate our growing campus and interface with our new ERP system to utilize best practices for fraud prevention.

The second problem we had to address was that the University did not have a systematic method for allocation of operating cash into short-intermediate and long-term pools. As a result, too much operating cash was concentrated in overnight liquidity investments with minimal return. This approach may have been acceptable when all interest rates were close to zero, but as rates increased, this mis-allocation represented a significant opportunity cost.

Finally, once we knew how much of our operating funds were long-term, how should we invest?

Design

The first step was to issue a request for proposal (RFP) from all banks within our service area. The Office of Treasury and Investment Management took the lead on speaking with various stakeholders around campus to draft the RFP language. The evaluation committee that was setup would identify all the important considerations for selecting a new bank and our methodology for selecting the right long-term partner.

Some of our considerations were:

- Will the bank be able to interface with our ERP system and payment processing software?
- Can the bank recommend tools and services to ensure we have “best-in-class” fraud prevention?
- How do we make sure we don’t gain products but lose customer service?

Concurrently, we started discussions with our investment consultant on our options for investing operating cash. Up to this point, all our operating funds were invested solely in overnight instruments and short-duration fixed income. We also began conversations with our system office on policy changes that would be required to invest our funds more efficiently. The system office was a great support to help us invest the assets and provided valuable input on how we should proceed.

Implementation

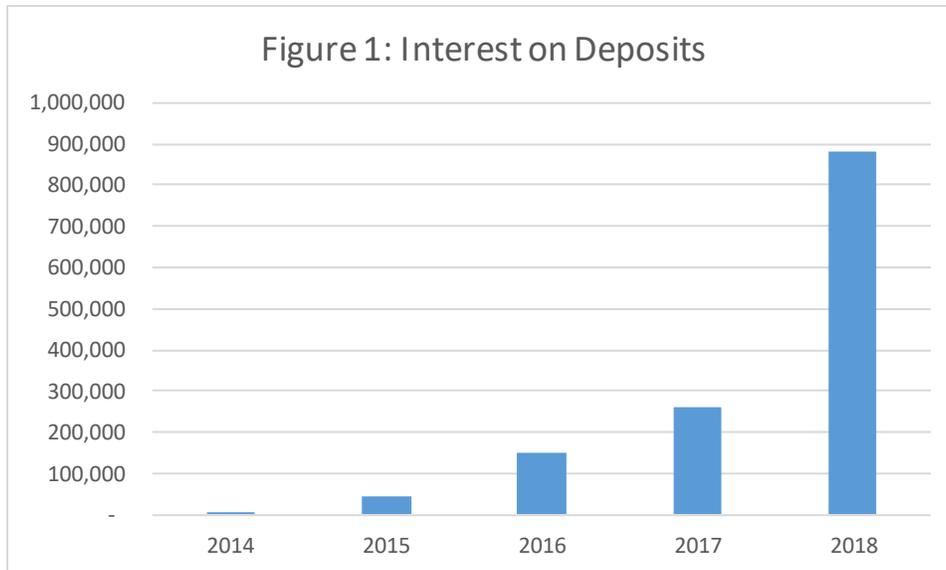
The University conducted a lot of pre-marketing before issuing the banking RFP. We met with banks in our service area and told them we were serious about selecting a long-term banking partner. The University underwent a deliberative process to review all the responses and ultimately selected Wells Fargo as our “national” bank and First National Bank as our “local” bank. The two-bank setup allowed us to have Wells Fargo handle all of our outgoing check and ACH payments while maintaining a local bank for our day-to-day cash needs. Once we had chosen the banks, we went through several months of planning and preparation across campus. Although the change would not be visible to most of the campus, we had to make sure the transition went smoothly. We began testing various files that had to be sent and received

from the bank to deliver payments. A similar process was setup to make sure the bank had notification of all the checks that the university issued to prevent any unauthorized checks from being cashed (i.e., positive pay). Similarly, we turned on ACH fraud filter to prevent any unauthorized debits from hitting our University accounts. Finally, we also revamped our wire process from a paper-based process to one where wires were initiated and approved online. Treasury staff would then enter the wire information into the banking portal and provide confirmation to the departments.

Once we had updated our banking processes, we turned our attention to cash forecasting and investment of our operating funds. Historically, we had maintained most of our operating cash in overnight deposits with a small exposure to short-intermediate fixed income. We worked with our system office to allow campuses to invest their operating cash in a more efficient manner. The newly approved investment policy permitted SHSU to allocate a portion of the operating cash as long-term and invest it accordingly. Over time, we have increased the dollars allocated to the long-term portfolio and also increased the allocation to growth assets. A key difference between the long-term operating portfolio and the endowment portfolio is that the latter is permitted to have exposures to private asset classes.

Results

The results from our investment program have been positive. Firstly, by investing our short-term cash more efficiently and benefiting from rising rates, we have been able to significantly increase the interest that we receive from our cash deposits. Figure 1 below shows how the University has benefited from a significant boost in our interest income on bank deposits and investment pools.



Separate from its cash investments, the University also created a long-term pool that invested in equities, fixed income, and real assets. The University has benefited from increasing its allocation to growth investments. Figure 2 below shows the total gains (realized and unrealized) that SHSU has generated from its investment of operating funds.

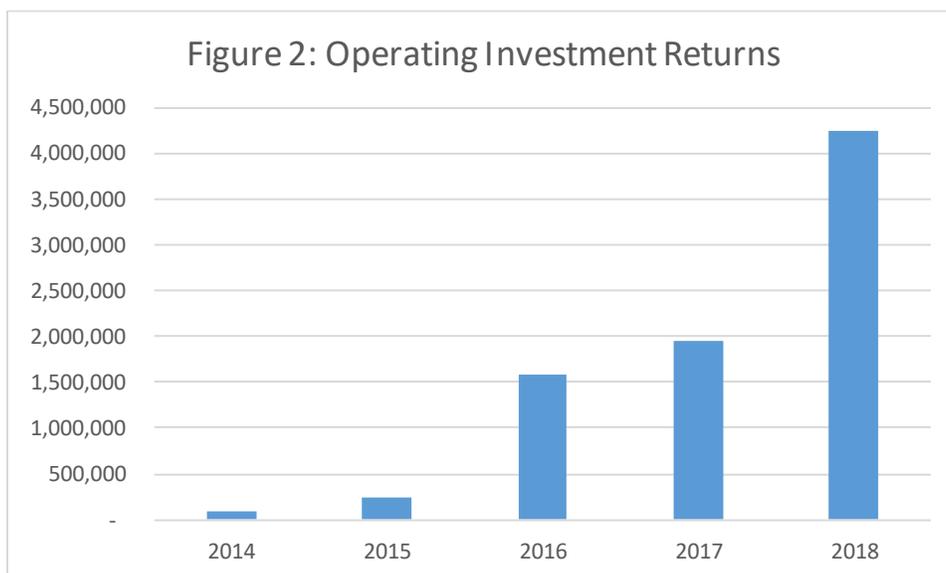
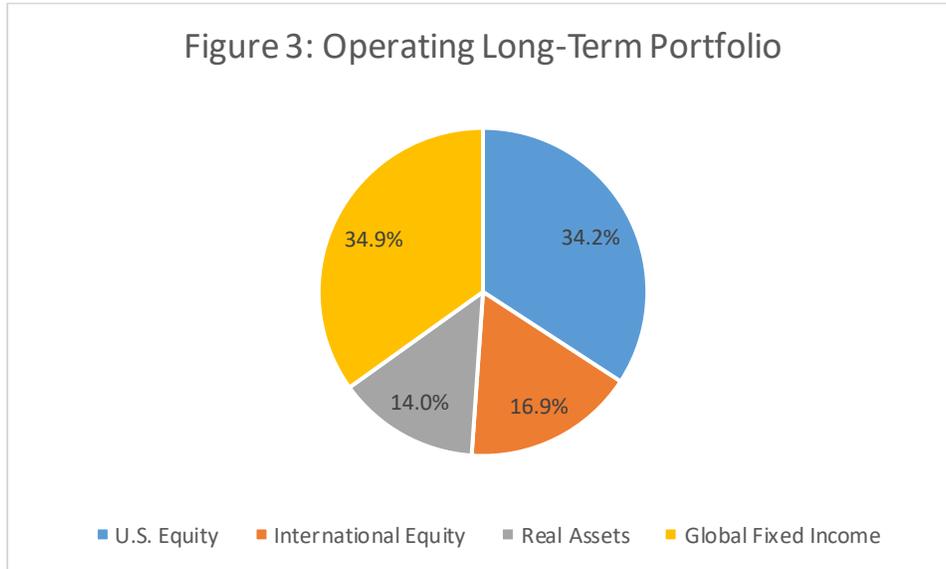


Figure 3 below shows the current allocation of the long-term operating portfolio across different asset classes as of August 31, 2018.



Conclusion

The University has deployed a two-bank setup that combines the scale of a national provider with the convenience of a local bank. This approach along with fraud prevention tools and daily cash monitoring has modernized our banking processes for future growth. At the same time, we have changed our investment approach by creating different pools for operating short-intermediate and long-term horizons. This has allowed SHSU to maintain the liquidity needed for our day-to-day operations while investing funds that are not needed over a single budget cycle.