

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 6 – J

DATE: October 7-8, 2015

SUBJECT: HEFF Cash Flow Statement

The primary source of dollars to support university academic facilities is the tuition dollars placed into the Higher Education Facilities Fund (HEFF). Twenty percent of all state-support tuition revenue, with the exception of the first \$875,000 of medical school tuition revenue, is placed into HEFF. HEFF is also assessed on all self-support credit hours as of 2009. HEFF supports new construction as well as the M&R needs of the universities.

Attachment I is a cash flow statement for the Higher Education Facilities Fund. The statement presents actual and planned revenues and expenditures for FY12 through FY30. The statement includes the following data and assumptions:

- FY12 – FY15 are actuals, and FY16 through FY30 are projections;
- FY16 tuition revenue estimates are based upon FY15 actuals with a 4.4% tuition increase;
- FY16 tuition revenue assumes a 5.2% tuition increase for non-residents and a freeze for residents considering our FY17 budget request;
- Interest earnings of 3% on the unobligated cash balance plus \$4.0M of unspent maintenance and repair funds;
- FY17 and beyond assumes a 5% tuition increase and stable enrollments;
- An inflation increase to M&R expenditures of 4.4% for FY16, and 5% thereafter;
- Bonding \$36M in capital projects in FY19 at 4.5% for 25 years.

The assumptions used in the first scenario have been used for about the last 15 years. These assumptions may have been fairly accurate up to this point, but the market conditions continue to change and 5% annual tuition increases are probably not sustainable for the next 15-20 years. Attachment II is a cash flow statement with some different assumptions:

- FY17 and beyond assumes a 3% tuition increase and stable enrollments;
- An inflation increase to M&R expenditures of 3% for FY17, and thereafter;
- Bonding \$36M in capital projects in FY21 at 4.5% for 25 years.

(Continued)

RECOMMENDED ACTION OF THE EXECUTIVE DIRECTOR

Information only.

A final scenario looks at flat obligations and revenues through FY30. This scenario shows that we can sustain our current commitments through FY30, but until substantial debt is satisfied we could not bond for the remaining \$36M in capital projects on the 2012 Ten-Year plan. While it is unlikely that we will not see inflation or cost increases for the next 15 years, there could be enrollment losses or shifts to distance, or even a need to reduce prices. Attachment III uses the following assumptions:

- FY17 and beyond assumes a 0% tuition increase and stable enrollments;
- An inflation increase to M&R expenditures of 0% for FY176, and hereafter;
- Bonding \$36M in capital projects in FY31 at 4.5% for 25 years.

If we look at FY15 rates from the surrounding state's tuition survey and consider a 3% and 5% tuition increase per year for SD, compared to the average increase of 3.2% for the past ten-years for the surrounding states, this is what our rates look like:

Average Undergraduate Tuition and Fee Costs

	<u>Surrounding States</u>	<u>SD</u>	<u>SD</u>
FY15 Average Cost	\$7,360.00	\$8,092.50	\$8,092.50
Annual Increase (1)	3.2%	5.0%	3.0%
FY17	\$7,595.52	\$8,497.13	\$8,335.28
FY18	\$7,838.58	\$8,921.98	\$8,585.33
FY19	\$8,089.41	\$9,368.08	\$8,842.89
FY20	\$8,348.27	\$9,836.48	\$9,108.18
FY21	\$8,615.42	\$10,328.31	\$9,381.43
FY22	\$8,891.11	\$10,844.72	\$9,662.87
FY23	\$9,175.63	\$11,386.96	\$9,952.75
FY24	\$9,469.25	\$11,956.31	\$10,251.34
FY25	\$9,772.26	\$12,554.12	\$10,558.88
FY26	\$10,084.97	\$13,181.83	\$10,875.64
FY27	\$10,407.69	\$13,840.92	\$11,201.91
FY28	\$10,740.74	\$14,532.97	\$11,537.97
FY29	\$11,084.44	\$15,259.62	\$11,884.11
FY30	\$11,439.15	\$16,022.60	\$12,240.63

Note: The annual increase assumes mandatory tuition and fees.

(1) The increase used for the surrounding states is based on their average increase for the last ten years.

The cash flow statements all show a fairly large unobligated balance at the end of each year even with additional debt financing plans. Because annual revenues do not come in until September, the cash balance at fiscal year-end must be sufficient to pay approximately one-half of the annual lease payment which is due in August. Projection of debt capacity and cash flows must both be considered prior to issuing new debt. We would only fund projects when capacity is available to debt service the leases and when sufficient cash is available to meet the annual payment.

The remaining projects on the 2012 Ten-Year Plan can be found in Attachment IV. Other commitments remaining as of June 30, 2015 include \$743,305 for the SDSU Swine Unit and \$579,267 for the NSU Greenhouse.

Given the pressures on price, the potential for enrollment declines in the next 15 years, the more sustainable scenario for HEFF cash flows is Attachment II, using a 3% inflation factor. These are the assumptions we will use at this time.

Board of Regents
HEFF Cash Flow Statement
Assumes Annual Tuition Increases and Growth in M&R of 5%
July 2016

<u>Fiscal Year</u>	<u>Beginning Balance July</u>	<u>Net 20% Tuition</u>	<u>M&R Fee Revenue</u>	<u>Interest Revenue</u>	<u>Total Revenue</u>	<u>FY M&R Expenditures</u>	<u>Lease Payment</u>	<u>Total Expenditures</u>	<u>Obligated Unexpended</u>	<u>Ending Cash</u>	<u>Unobligated Funds</u>
2012	16,247,830	22,254,323	2,205,072	1,263,830	25,723,225	9,367,761	13,095,917	22,463,678	4,784,614	19,507,376	14,722,762
2013	19,507,376	24,758,500	2,200,046	812,123	27,770,669	10,431,292	12,906,638	23,337,930	8,756,481	23,940,116	15,183,635
2014	23,940,116	26,208,967	2,202,933	466,880	28,878,780	13,324,384	14,341,029	27,665,413	8,686,216	25,153,483	16,467,267
2015	25,153,483	26,735,351	2,200,871	640,690	29,576,912	11,112,788	16,233,090	27,345,878	12,256,752	27,384,517	15,127,765
2016	27,384,517	27,911,707	2,201,902	573,833	30,687,442	28,502,242	16,972,053	45,474,295	0	12,597,664	12,597,664
2017	12,597,664	28,201,214	2,200,613	497,930	30,899,757	15,210,434	16,669,893	31,880,327	0	11,617,094	11,617,094
2018	11,617,094	29,611,274	2,202,160	468,513	32,281,947	16,012,095	16,673,961	32,686,056	0	11,212,985	11,212,985
2019	11,212,985	31,091,838	2,201,129	456,390	33,749,357	16,854,666	19,163,332	36,017,998	0	8,944,344	8,944,344
2020	8,944,344	32,646,430	2,202,675	388,330	35,237,435	17,739,343	19,157,945	36,897,288	0	7,284,491	7,284,491
2021	7,284,491	34,278,752	2,201,387	338,535	36,818,673	18,668,691	18,624,761	37,293,451	0	6,809,713	6,809,713
2022	6,809,713	35,992,689	2,201,232	324,291	38,518,213	19,645,937	18,633,585	38,279,522	0	7,048,404	7,048,404
2023	7,048,404	37,792,324	2,202,139	331,452	40,325,915	20,672,797	18,613,666	39,286,462	0	8,087,856	8,087,856
2024	8,087,856	39,681,940	2,204,381	362,636	42,248,956	21,748,106	18,636,614	40,384,720	0	9,952,093	9,952,093
2025	9,952,093	41,666,037	2,203,840	418,563	44,288,440	22,879,757	18,444,558	41,324,315	0	12,916,218	12,916,218
2026	12,916,218	43,749,339	2,203,840	507,487	46,460,665	24,064,501	18,444,731	42,509,231	0	16,867,651	16,867,651
2027	16,867,651	45,936,806	2,203,840	626,030	48,766,675	26,503,284	17,263,070	43,766,354	0	21,867,972	21,867,972
2028	21,867,972	48,233,646	2,203,840	776,039	51,213,525	27,811,255	16,648,480	44,459,735	0	28,621,763	28,621,763
2029	28,621,763	50,645,328	2,203,840	978,653	53,827,821	29,184,624	16,639,860	45,824,484	0	36,625,100	36,625,100
2030	36,625,100	53,177,595	2,203,840	1,218,753	56,600,188	30,626,662	15,655,456	46,282,118	0	46,943,170	46,943,170

1. Assumes a 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Assumes stable enrollments for FY16 and beyond.
3. Assumes a tuition freeze for residents in FY17 and a 5% increase per year thereafter.
4. Assumes \$36M in capital projects bonded in FY19 at 4.5% for 25 years. This would complete the 2012 Ten-Year Capital Plan. Some projects could be done sooner, but that pushes others
5. All figures for periods after June 30, 2015 (FY15) are estimates.

Board of Regents
HEFF Cash Flow Statement
Assumes Annual Tuition Increases and Growth in M&R of 3%
July 2016

<u>Fiscal Year</u>	<u>Beginning Balance July</u>	<u>Net 20% Tuition</u>	<u>M&R Fee Revenue</u>	<u>Interest Revenue</u>	<u>Total Revenue</u>	<u>FY M&R Expenditures</u>	<u>Lease Payment</u>	<u>Total Expenditures</u>	<u>Obligated Unexpended</u>	<u>Ending Cash</u>	<u>Unobligated Funds</u>
2012	16,247,830	22,254,323	2,205,072	1,263,830	25,723,225	9,367,761	13,095,917	22,463,678	4,784,614	19,507,376	14,722,762
2013	19,507,376	24,758,500	2,200,046	812,123	27,770,669	10,431,292	12,906,638	23,337,930	8,756,481	23,940,116	15,183,635
2014	23,940,116	26,208,967	2,202,933	466,880	28,878,780	13,324,384	14,341,029	27,665,413	8,686,216	25,153,483	16,467,267
2015	25,153,483	26,735,351	2,200,871	640,690	29,576,912	11,112,788	16,233,090	27,345,878	12,256,752	27,384,517	15,127,765
2016	27,384,517	27,911,707	2,201,902	573,833	30,687,442	28,502,242	16,972,053	45,474,295	0	12,597,664	12,597,664
2017	12,597,664	28,201,214	2,200,613	497,930	30,899,757	15,210,434	16,669,893	31,880,327	0	11,617,094	11,617,094
2018	11,617,094	29,047,250	2,202,160	468,513	31,717,923	15,690,903	16,673,961	32,364,863	0	10,970,153	10,970,153
2019	10,970,153	29,918,668	2,201,129	449,105	32,568,901	16,186,586	16,662,693	32,849,279	0	10,689,776	10,689,776
2020	10,689,776	30,816,228	2,202,675	440,693	33,459,596	16,697,106	16,657,306	33,354,413	0	10,794,959	10,794,959
2021	10,794,959	31,740,715	2,201,387	443,849	34,385,950	17,223,367	18,624,761	35,848,127	0	9,332,782	9,332,782
2022	9,332,782	32,692,936	2,201,232	399,983	35,294,151	17,766,842	18,633,585	36,400,427	0	8,226,507	8,226,507
2023	8,226,507	33,673,724	2,202,139	366,795	36,242,658	18,327,397	18,613,666	36,941,063	0	7,528,102	7,528,102
2024	7,528,102	34,683,936	2,204,381	345,843	37,234,160	18,901,916	18,636,614	37,538,530	0	7,223,732	7,223,732
2025	7,223,732	35,724,454	2,203,840	336,712	38,265,006	19,496,232	18,444,558	37,940,790	0	7,547,948	7,547,948
2026	7,547,948	36,796,187	2,203,840	346,438	39,346,466	20,104,923	18,444,731	38,549,653	0	8,344,761	8,344,761
2027	8,344,761	37,900,073	2,203,840	370,343	40,474,256	21,926,644	17,263,070	39,189,714	0	9,629,303	9,629,303
2028	9,629,303	39,037,075	2,203,840	408,879	41,649,794	22,574,127	16,648,480	39,222,607	0	12,056,490	12,056,490
2029	12,056,490	40,208,188	2,203,840	481,695	42,893,722	23,241,035	16,639,860	39,880,894	0	15,069,318	15,069,318
2030	15,069,318	41,414,433	2,203,840	572,080	44,190,353	23,927,950	15,655,456	39,583,405	0	19,676,265	19,676,265

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2. Assumes stable enrollments for FY16 and beyond.
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4. Assumes \$36M in capital projects bonded in FY21 at 4.5% for 25 years. This would complete the 2012 Ten-Year Capital Plan. Some projects could be done sooner, but that pushes others
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Board of Regents
HEFF Cash Flow Statement
Assumes Annual Tuition Increases and Growth in M&R of 0%
July 2016

<u>Fiscal Year</u>	<u>Beginning Balance July</u>	<u>Net 20% Tuition</u>	<u>M&R Fee Revenue</u>	<u>Interest Revenue</u>	<u>Total Revenue</u>	<u>FY M&R Expenditures</u>	<u>Lease Payment</u>	<u>Total Expenditures</u>	<u>Obligated Unexpended</u>	<u>Ending Cash</u>	<u>Unobligated Funds</u>
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2013	19,507,376	24,758,500	2,200,046	812,123	27,770,669	10,431,292	12,906,638	23,337,930	8,756,481	23,940,116	15,183,635
2014	23,940,116	26,208,967	2,202,933	466,880	28,878,780	13,324,384	14,341,029	27,665,413	8,686,216	25,153,483	16,467,267
2015	25,153,483	26,735,351	2,200,871	640,690	29,576,912	11,112,788	16,233,090	27,345,878	12,256,752	27,384,517	15,127,765
2016	27,384,517	27,911,707	2,201,902	573,833	30,687,442	28,502,242	16,972,053	45,474,295	0	12,597,664	12,597,664
2017	12,597,664	28,201,214	2,200,613	497,930	30,899,757	15,210,434	16,669,893	31,880,327	0	11,617,094	11,617,094
2018	11,617,094	28,201,214	2,202,160	468,513	30,871,887	15,209,114	16,673,961	31,883,075	0	10,605,905	10,605,905
2019	10,605,905	28,201,214	2,201,129	438,177	30,840,520	15,208,556	16,662,693	31,871,249	0	9,575,177	9,575,177
2020	9,575,177	28,201,214	2,202,675	407,255	30,811,144	15,207,947	16,657,306	31,865,253	0	8,521,068	8,521,068
2021	8,521,068	28,201,214	2,201,387	375,632	30,778,233	15,207,744	16,124,122	31,331,865	0	7,967,435	7,967,435
2022	7,967,435	28,201,214	2,201,232	359,023	30,761,469	15,208,962	16,132,946	31,341,908	0	7,386,996	7,386,996
2023	7,386,996	28,201,214	2,202,139	341,610	30,744,963	15,210,992	16,113,027	31,324,019	0	6,807,940	6,807,940
2024	6,807,940	28,201,214	2,204,381	324,238	30,729,833	15,210,231	16,135,975	31,346,205	0	6,191,568	6,191,568
2025	6,191,568	28,201,214	2,203,840	305,747	30,710,801	15,212,008	15,943,919	31,155,926	0	5,746,442	5,746,442
2026	5,746,442	28,201,214	2,203,840	292,393	30,697,447	15,210,383	15,944,091	31,154,475	0	5,289,414	5,289,414
2027	5,289,414	28,201,214	2,203,840	278,682	30,683,736	16,403,480	14,762,431	31,165,911	0	4,807,240	4,807,240
2028	4,807,240	28,201,214	2,203,840	264,217	30,669,271	16,403,480	14,147,841	30,551,321	0	4,925,190	4,925,190
2029	4,925,190	28,201,214	2,203,840	267,756	30,672,809	16,403,480	14,139,221	30,542,700	0	5,055,299	5,055,299
2030	5,055,299	28,201,214	2,203,840	271,659	30,676,713	16,403,480	13,154,817	29,558,296	0	6,173,716	6,173,716

1. Assumes a 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Assumes stable enrollments for FY16 and beyond.
3. Assumes a tuition freeze for residents in FY17 and a 0% increase per year thereafter.
4. No additional capital projects could be bonded under this scenario until significant current debt is satisfied. That would be around FY31.
5. All figures for periods after June 30, 2015 (FY15) are estimates.

2012 Ten-Year Plan Proposed Funding Schedule

8/20/2015

Campus Priority		Project	HEFF Bonds	Other Bonds	Other Funds	Project Total	Proposed HEFF Bonding		
							FY2014	FY2015	FY2019
Infrastructure Projects**									
BHSU	2	Infrastructure Repair and Upgrade	\$4,000,000		\$500,000	\$4,500,000	\$4,000,000		\$0
DSU	NA	Energy Efficiency and ADA Compliance	\$1,275,000		\$0	\$1,275,000	\$1,275,000		\$0
NSU	NA	Street Improvements	\$600,000		\$0	\$600,000	\$600,000		\$0
SDSM&T	3	Utility Infrastructure	\$2,740,000		\$500,000	\$3,240,000	\$2,740,000		\$0
SDSU	10	Utility Tunnel, Steam/Condensate Infrastructure Repair & Modernization	\$7,000,000		\$10,434,000	\$17,434,000	\$7,000,000		\$0
SDSU	11	Utility Repairs & Upgrades - Water, Sanitary Sewer, Storm Sewer	\$5,000,000		\$5,043,000	\$10,043,000	\$0		\$5,000,000
USD	3	Mechanical Overhaul & Modernization	\$8,000,000		\$2,000,000	\$10,000,000	\$8,000,000		\$0
			\$28,615,000		\$18,477,000	\$47,092,000	\$23,615,000		\$5,000,000
** Other funds will come from campus HEFF M&R allocations.									
Building Projects									
BHSU	1	Jonas Science Renovation	\$1,250,000		\$2,950,000	\$4,200,000	\$1,250,000		\$0
BHSU	3	E. Y. Berry Library Renovation	\$3,000,000		\$1,500,000	\$4,500,000	\$0		\$3,000,000
DSU	1	Information Systems Building	\$6,000,000		\$5,400,000	\$11,400,000	\$0	\$6,000,000	\$0
NSU	1	Johnson Fine Arts Center Renovation and Addition	\$5,000,000		\$7,000,000	\$12,000,000	\$5,000,000		\$0
SDSM&T	1	Chemistry/Chemical Engineering Renovation **	\$6,040,000		\$519,000	\$6,559,000	\$0	\$6,040,000	\$0
SDSU	1	New Headhouse & Greenhouses	\$1,000,000		\$3,414,000	\$4,414,000	\$1,000,000		\$0
SDSU	2	Architecture, Math & Engineering	\$10,000,000		\$7,082,800	\$17,082,800	\$10,000,000		\$0
SDSU	3	Visual Arts Facility	\$7,500,000		\$4,900,000	\$12,400,000	\$0		\$7,500,000
SDSU	4	Performing Arts Center	\$13,000,000		\$20,103,713	\$33,103,713	\$0		\$13,000,000
SDSU	7	New Cow-Calf Research & Education Unit - Volga	\$900,000	\$2,000,000	\$806,000	\$3,706,000	\$900,000		\$0
USD	1	Science, Health, and Research Lab Building*	\$8,695,000		\$3,405,000	\$12,100,000	\$8,695,000		\$0
USD	4	Patterson Hall Renovation	\$6,500,000		\$0	\$6,500,000	\$6,500,000		\$0
USD	5	Dakota Hall	\$7,500,000		\$0	\$7,500,000	\$0		\$7,500,000
			\$76,385,000	\$2,000,000	\$57,080,513	\$135,465,513	\$33,345,000	\$12,040,000	\$31,000,000
Total Infrastructure Plus Building Projects			\$105,000,000	\$2,000,000	\$75,557,513	\$182,557,513	\$56,960,000	\$12,040,000	\$36,000,000