

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 7 – T

DATE: December 6-8, 2016

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). Starting in FY17, the percentage contributed to HEFF is 11.5% of all tuition dollars, with the exception of the first \$875,000 of medical school tuition revenue. The reduction from 20% to 11.5% reflects the pay-off of the HEFF Series 2008 bond (\$8,612,640) and redirecting the \$704,077 payment to the tuition freeze, and increasing the tuition fee base by rolling the university support fee into tuition. While the percentage is reduced, the 11.5% produces the same amount of revenue to support HEFF debt and maintenance and repair as it previously did. HEFF supports new construction as well as the M&R needs of the universities.

Attachment I provides a summary of five cash flow statements using different assumptions.

- Scenario 1: Stable enrollments and 2% annual rate increase FY18-FY30. The remaining \$23.0M in projects from the Ten-Year Plan could be bonded in FY22. In this scenario you could do an additional \$10.0M of bonding in 2025.
- Scenario 2: Enrollment decline of 1% in FY18, stable enrollments FY19-FY30 and 2% rate increase FY18-FY30. The remaining \$23.0M in projects from the Ten-Year Plan could be bonded in FY23. In this scenario you could do an additional \$10.0M of bonding in 2027.
- Scenario 3: Enrollment decline of 2% in FY18, stable enrollments FY19-FY30 and 2% rate increase FY18-FY30. The remaining \$23.0M in projects from the Ten-Year Plan could be bonded in FY25. In this scenario you could do an additional \$10.0M of bonding in 2028.
- Scenario 4: Enrollment decline of 3% in FY18, stable enrollments FY19-FY30, and 2% rate increase FY18-FY30. The remaining \$23.0M in projects from the Ten-Year Plan could be bonded in FY27. In this scenario you could do an additional \$10.0M of bonding in 2030.
- Scenario 5: Enrollment decline of 1% in FY18 and no rate increase, stable enrollments and 2% rate increase FY19-FY30. The remaining \$23.0M in projects from the Ten-

(Continued)

INFORMATIONAL ITEM

HEFF Cash Flow Statement

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Year Plan could be bonded in FY27. In this scenario you could do an additional \$10.0M of bonding in 2029.

Other assumptions:

- FY17 – issue \$13M of bonds for the SDSU Performing Arts Center and pay only principal until FY22 (SDSU to pay interest) and then pick up both principal and interest;
- An inflation increase to M&R expenditures of 2% for FY18 and thereafter;
- Bonding \$23.0M in capital to finish the capital plan when cash flows allow.

The point of the attached tables is to show how a 1%-3% change in any one year in enrollments can significantly impact the HEFF cash flow statements due to the compounding yearly projections. The cumulative effect of a change in any year can significantly alter the cash flows. A loss of credit hours in more than one year would seriously impact our planning.

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 II.

Contributions or Reductions in HEFF Cash
Scenario 1
FY18-FY30 Stable Enrollments
FY18-FY30 - 2% Rate Increase

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
11.5% HEFF Collections	\$27,728,645	\$28,283,217	\$28,848,882	\$29,425,859	\$30,014,377	\$30,614,664	\$31,226,957
Interest Revenue	\$505,956	\$469,291	\$448,111	\$434,102	\$427,344	\$444,073	\$413,640
M&R Allocation	\$15,155,987	\$15,154,668	\$15,474,212	\$15,800,109	\$16,132,941	\$16,473,856	\$16,822,376
Bond & Rent Payments	\$14,300,803	\$14,303,839	\$14,289,736	\$14,285,123	\$13,751,165	\$15,599,293	\$15,580,920
Contributions To / (From) HEFF	-\$1,222,189	-\$705,999	-\$466,955	-\$225,271	\$557,615	-\$1,014,412	-\$762,699
Unobligated Funds	\$11,643,027	\$10,937,028	\$10,470,073	\$10,244,802	\$10,802,417	\$9,788,005	\$9,025,306
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
11.5% HEFF Collections	\$31,851,497	\$32,488,527	\$33,138,297	\$33,801,063	\$34,477,084	\$35,166,626	\$35,869,958
Interest Revenue	\$390,759	\$374,775	\$372,320	\$378,189	\$392,613	\$434,677	\$487,236
M&R Allocation	\$17,175,035	\$17,537,300	\$17,903,373	\$19,471,522	\$19,854,075	\$20,244,279	\$20,642,287
Bond & Rent Payments	\$15,600,028	\$15,407,843	\$15,411,599	\$14,226,923	\$13,613,493	\$13,605,053	\$12,616,009
Contributions To / (From) HEFF	-\$532,807	-\$81,841	\$195,645	\$480,807	\$1,402,129	\$1,751,971	\$3,098,898
Unobligated Funds	\$8,492,499	\$8,410,658	\$8,606,303	\$9,087,110	\$10,489,239	\$12,241,210	\$15,340,108

Assumptions:

1. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Stable enrollments FY17-FY30.
3. 2% tuition increase FY18-FY30.
4. Assumes \$13M in capital projects bonded in FY17 with SDSU paying all interest through FY21 and then HEFF picking up principal and interest starting in FY22.
5. Additional capital projects of \$23.0M would be bonded for in FY22. This would complete the 2012 Ten-Year Capital Plan.
6. All figures are estimates.

Contributions or Reductions in HEFF Cash
Scenario 2
FY18 1% Enrollment Decline and FY19-FY30 Stable Enrollments
FY18-FY30 - 2% Rate Increase

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
11.5% HEFF Collections	\$27,728,645	\$28,000,385	\$28,560,393	\$29,131,601	\$29,714,233	\$30,308,518	\$30,914,688
Interest Revenue	\$505,956	\$469,291	\$439,626	\$416,708	\$400,600	\$407,522	\$412,302
M&R Allocation	\$15,155,987	\$15,154,668	\$15,474,212	\$15,800,109	\$16,132,941	\$16,473,856	\$16,822,376
Bond & Rent Payments	\$14,300,803	\$14,303,839	\$14,289,736	\$14,285,123	\$13,751,165	\$14,082,849	\$15,580,920
Contributions To / (From) HEFF	-\$1,222,189	-\$988,831	-\$763,929	-\$536,923	\$230,727	\$159,335	-\$1,076,306
Unobligated Funds	\$11,643,027	\$10,654,196	\$9,890,267	\$9,353,344	\$9,584,071	\$9,743,406	\$8,667,100
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
11.5% HEFF Collections	\$31,532,982	\$32,163,641	\$32,806,914	\$33,463,052	\$34,132,313	\$34,814,960	\$35,511,259
Interest Revenue	\$380,013	\$354,151	\$341,330	\$336,329	\$339,357	\$369,480	\$409,533
M&R Allocation	\$17,175,035	\$17,537,300	\$17,903,373	\$19,471,522	\$19,854,075	\$20,244,279	\$20,642,287
Bond & Rent Payments	\$15,600,028	\$15,407,843	\$15,411,599	\$14,226,923	\$13,613,493	\$13,605,053	\$12,616,009
Contributions To / (From) HEFF	-\$862,068	-\$427,351	-\$166,728	\$100,936	\$1,004,102	\$1,335,108	\$2,662,496
Unobligated Funds	\$7,805,032	\$7,377,681	\$7,210,953	\$7,311,889	\$8,315,991	\$9,651,099	\$12,313,595

Assumptions:

1. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Stable enrollments FY17-FY30.
3. 2% tuition increase FY18-FY30. .
4. Assumes \$13M in capital projects bonded in FY17 with SDSU paying all interest through FY21 and then HEFF picking up principal and interest starting in FY22.
5. Additional capital projects of \$23.0M would be bonded for in FY23. This would complete the 2012 Ten-Year Capital Plan.
6. All figures are estimates.

Contributions or Reductions in HEFF Cash
Scenario 3
FY18 2% Enrollment Decline and FY19-FY30 Stable Enrollments
FY18-FY30 - 2% Rate Increase

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
11.5% HEFF Collections	\$27,728,645	\$27,717,553	\$28,271,904	\$28,837,342	\$29,414,089	\$30,002,371	\$30,602,418
Interest Revenue	\$505,956	\$469,291	\$431,141	\$399,314	\$373,857	\$370,972	\$365,471
M&R Allocation	\$15,155,987	\$15,154,668	\$15,474,212	\$15,800,109	\$16,132,941	\$16,473,856	\$16,822,376
Bond & Rent Payments	\$14,300,803	\$14,303,839	\$14,289,736	\$14,285,123	\$13,751,165	\$14,082,849	\$14,064,477
Contributions To / (From) HEFF	-\$1,222,189	-\$1,271,663	-\$1,060,903	-\$848,576	-\$96,160	-\$183,362	\$81,036
Unobligated Funds	\$11,643,027	\$10,371,364	\$9,310,461	\$8,461,885	\$8,365,725	\$8,182,363	\$8,263,399
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
11.5% HEFF Collections	\$31,214,467	\$31,838,756	\$32,475,531	\$33,125,042	\$33,787,543	\$34,463,293	\$35,152,559
Interest Revenue	\$367,902	\$377,614	\$355,751	\$341,241	\$334,276	\$353,903	\$382,939
M&R Allocation	\$17,175,035	\$17,537,300	\$17,903,373	\$19,471,522	\$19,854,075	\$20,244,279	\$20,642,287
Bond & Rent Payments	\$14,083,585	\$15,407,843	\$15,411,599	\$14,226,923	\$13,613,493	\$13,605,053	\$12,616,009
Contributions To / (From) HEFF	\$323,749	-\$728,773	-\$483,690	-\$232,162	\$654,251	\$967,864	\$2,277,202
Unobligated Funds	\$8,587,148	\$7,858,375	\$7,374,685	\$7,142,523	\$7,796,774	\$8,764,638	\$11,041,840

Assumptions:

1. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Stable enrollments FY17-FY30.
3. 2% tuition increase FY18-FY30. .
4. Assumes \$13M in capital projects bonded in FY17 with SDSU paying all interest through FY21 and then HEFF picking up principal and interest starting in FY22.
5. Additional capital projects of \$23.0M would be bonded for in FY25. This would complete the 2012 Ten-Year Capital Plan.
6. All figures are estimates.

Contributions or Reductions in HEFF Cash
Scenario 4
FY18 3% Enrollment Decline and FY19-FY30 Stable Enrollments
FY18-FY30 - 2% Rate Increase

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
11.5% HEFF Collections	\$27,728,645	\$27,434,721	\$27,983,415	\$28,543,084	\$29,113,945	\$29,696,224	\$30,290,149
Interest Revenue	\$505,956	\$469,291	\$422,656	\$381,920	\$347,113	\$334,421	\$318,640
M&R Allocation	\$15,155,987	\$15,154,668	\$15,474,212	\$15,800,109	\$16,132,941	\$16,473,856	\$16,822,376
Bond & Rent Payments	\$14,300,803	\$14,303,839	\$14,289,736	\$14,285,123	\$13,751,165	\$14,082,849	\$14,064,477
Contributions To / (From) HEFF	-\$1,222,189	-\$1,554,495	-\$1,357,877	-\$1,160,228	-\$423,048	-\$526,060	-\$278,064
Unobligated Funds	\$11,643,027	\$10,088,532	\$8,730,655	\$7,570,427	\$7,147,379	\$6,621,319	\$6,343,255
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
11.5% HEFF Collections	\$30,895,952	\$31,513,871	\$32,144,148	\$32,787,031	\$33,442,772	\$34,111,627	\$34,793,860
Interest Revenue	\$310,298	\$308,727	\$320,543	\$340,528	\$323,402	\$332,360	\$350,200
M&R Allocation	\$17,175,035	\$17,537,300	\$17,903,373	\$19,471,522	\$19,854,075	\$20,244,279	\$20,642,287
Bond & Rent Payments	\$14,083,585	\$13,891,400	\$13,895,155	\$14,226,923	\$13,613,493	\$13,605,053	\$12,616,009
Contributions To / (From) HEFF	-\$52,370	\$393,898	\$666,163	-\$570,886	\$298,606	\$594,655	\$1,885,764
Unobligated Funds	\$6,290,885	\$6,684,783	\$7,350,946	\$6,780,060	\$7,078,666	\$7,673,321	\$9,559,085

Assumptions:

1. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Stable enrollments FY17-FY30.
3. 2% tuition increase FY18-FY30. .
4. Assumes \$13M in capital projects bonded in FY17 with SDSU paying all interest through FY21 and then HEFF picking up principal and interest starting in FY22.
5. Additional capital projects of \$23.0M would be bonded for in FY27. This would complete the 2012 Ten-Year Capital Plan.
6. All figures are estimates.

Contributions or Reductions in HEFF Cash
Scenario 5
FY18 1% Enrollment Decline and FY19-FY30 Stable Enrollments
FY18 - 0% Rate Increase, FY19-FY30 - 2% Rate Increase

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
11.5% HEFF Collections	\$27,728,645	\$27,451,358	\$28,000,385	\$28,560,393	\$29,131,601	\$29,714,233	\$30,308,518
Interest Revenue	\$505,956	\$469,291	\$423,155	\$382,943	\$348,686	\$336,571	\$321,394
M&R Allocation	\$15,155,987	\$15,154,668	\$15,474,212	\$15,800,109	\$16,132,941	\$16,473,856	\$16,822,376
Bond & Rent Payments	\$14,300,803	\$14,303,839	\$14,289,736	\$14,285,123	\$13,751,165	\$14,082,849	\$14,064,477
Contributions To / (From) HEFF	-\$1,222,189	-\$1,537,858	-\$1,340,408	-\$1,141,896	-\$403,819	-\$505,901	-\$256,941
Unobligated Funds	\$11,643,027	\$10,105,169	\$8,764,761	\$7,622,865	\$7,219,046	\$6,713,145	\$6,456,204
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
11.5% HEFF Collections	\$30,914,688	\$31,532,982	\$32,163,641	\$32,806,914	\$33,463,052	\$34,132,313	\$34,814,960
Interest Revenue	\$313,686	\$312,779	\$325,291	\$346,003	\$329,637	\$339,390	\$358,062
M&R Allocation	\$17,175,035	\$17,537,300	\$17,903,373	\$19,471,522	\$19,854,075	\$20,244,279	\$20,642,287
Bond & Rent Payments	\$14,083,585	\$13,891,400	\$13,895,155	\$14,226,923	\$13,613,493	\$13,605,053	\$12,616,009
Contributions To / (From) HEFF	-\$30,246	\$417,061	\$690,404	-\$545,528	\$325,121	\$622,371	\$1,914,726
Unobligated Funds	\$6,425,958	\$6,843,019	\$7,533,423	\$6,987,895	\$7,313,016	\$7,935,387	\$9,850,113

Assumptions:

1. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Stable enrollments FY17-FY30.
3. 2% tuition increase FY18-FY30. .
4. Assumes \$13M in capital projects bonded in FY17 with SDSU paying all interest through FY21 and then HEFF picking up principal and interest starting in FY22.
5. Additional capital projects of \$23.0M would be bonded for in FY27. This would complete the 2012 Ten-Year Capital Plan.
6. All figures are estimates.

2012 Ten-Year Plan Proposed Funding Schedule

September 2016

Project		Fund Sources				Proposed HEFF Bonding			
		HEFF Bonds	Other Bonds	Other Funds	Project Total	FY2014	FY2015	FY2017	TBD
Infrastructure Projects**									
BHSU	Infrastructure Repair and Upgrade	\$4,000,000		\$500,000	\$4,500,000	\$4,000,000			\$0
DSU	Energy Efficiency and ADA Compliance	\$1,275,000		\$0	\$1,275,000	\$1,275,000			\$0
NSU	Street Improvements	\$600,000		\$0	\$600,000	\$600,000			\$0
SDSM&T	Utility Infrastructure	\$2,740,000		\$500,000	\$3,240,000	\$2,740,000			\$0
SDSU	Utility Tunnel, Steam/Condensate Infrastructure Repair & Modernization	\$7,000,000		\$10,434,000	\$17,434,000	\$7,000,000			\$0
SDSU	Utility Repairs & Upgrades - Water, Sanitary Sewer, Storm Sewer	\$5,000,000		\$5,043,000	\$10,043,000	\$0			\$5,000,000
USD	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	\$0	\$0	\$5,000,000
** Other funds will come from campus HEFF M&R allocations.									
Building Projects									
BHSU	Jonas Science Renovation	\$1,250,000		\$2,950,000	\$4,200,000	\$1,250,000			\$0
BHSU	E. Y. Berry Library Renovation	\$3,000,000		\$1,500,000	\$4,500,000	\$0			\$3,000,000
DSU	Information Systems Building	\$6,000,000		\$5,400,000	\$11,400,000	\$0	\$6,000,000		\$0
NSU	Johnson Fine Arts Center Renovation and Addition	\$5,000,000		\$8,800,000	\$13,800,000	\$5,000,000			\$0
SDSM&T	Chemistry/Chemical Engineering Renovation **	\$6,040,000		\$519,000	\$6,559,000	\$0	\$6,040,000		\$0
SDSU	New Headhouse & Greenhouses	\$1,000,000		\$3,414,000	\$4,414,000	\$1,000,000			\$0
SDSU	Architecture, Math & Engineering	\$10,000,000		\$7,082,800	\$17,082,800	\$10,000,000			\$0
SDSU	Visual Arts Facility	\$7,500,000		\$4,900,000	\$12,400,000	\$0			\$7,500,000
SDSU	Performing Arts Center	\$13,000,000		\$20,103,713	\$33,103,713	\$0		\$13,000,000	\$0
SDSU	New Cow-Calf Research & Education Unit - Volga	\$900,000	\$2,000,000	\$806,000	\$3,706,000	\$900,000			\$0
USD	Science, Health, and Research Lab Building*	\$8,695,000		\$3,405,000	\$12,100,000	\$8,695,000			\$0
USD	Patterson Hall Renovation	\$6,500,000		\$0	\$6,500,000	\$6,500,000			\$0
USD	Dakota Hall	\$7,500,000		\$0	\$7,500,000	\$0			\$7,500,000
		\$76,385,000	\$2,000,000	\$58,880,513	\$137,265,513	\$33,345,000	\$12,040,000	\$13,000,000	\$18,000,000
Total Infrastructure Plus Building Projects		\$105,000,000	\$2,000,000	\$77,357,513	\$184,357,513	\$56,960,000	\$12,040,000	\$13,000,000	\$23,000,000