

**SOUTH DAKOTA BOARD OF REGENTS**

**Budget and Finance**

**AGENDA ITEM: 6 – E**  
**DATE: December 5-7, 2017**

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**SUBJECT**

**HEFF Cash Flow Statement**

**CONTROLLING STATUTE, RULE, OR POLICY**

[SDCL 13-51-2](#)

[SDCL 13-53-15](#)

[SDCL 13-53-15.3](#)

**BACKGROUND / DISCUSSION**

The primary source of dollars to fund construction, maintenance and renovation of 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 \$1,521,740 of medical school tuition revenue which is not subject to HEFF. HEFF is also assessed on all self-support credit hours as of 2009. 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 was reduced, the 11.5% produces the same amount of revenue to support HEFF debt and maintenance and repair because it is assessed on a much larger base.

Attachment I is a cash flow statement for the Higher Education Facilities Fund as of October 2017. The statement presents actual and planned revenues and expenditures for FY15 through FY30. The statement includes the following data and assumptions:

- FY15 – FY17 are actuals, and FY18 through FY30 are projections;
- FY18 tuition revenue estimates are based upon FY17 actuals with a 1.0% weighted average tuition increase;
- Interest earnings of 3% on the unobligated cash balance plus \$4.0M of unspent maintenance and repair funds;
- FY17 and beyond assumes a 2% tuition increase and stable enrollments;
- A 2% decrease to the M&R allocation from FY18 to FY19 (\$329,328), and a 2% increase each year thereafter;
- Bonding \$10.5M in capital projects in FY22 and \$12.5M in FY27 at 4.0% interest and for 25 years.

(Continued)

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**INFORMATIONAL ITEM**

The 11.5% tuition revenues were \$853,875 short from last October's projection. The amount of money allocated for maintenance and repair for FY19 was reduced by \$329,328 or approximately 2%, and future debt financing was pushed further out to keep the statement in the black. The following are the findings of the investigation of why the revenues fell short of the projection.

- We converted approximately \$315,000 from HEFF revenue to M&R fee revenue by increasing the maintenance and repair fee from \$1.64 to \$2.18. This amount was not subtracted from the HEFF revenue projection and it should have been. This was a shift in fund sources so it did not result in less money going to maintenance and repair.
- We made a decision after calculating the 11.5% that we would no longer assess HEFF on any fees. That was a loss of \$82,798 that was collected in FY16 and not in FY17. This change was allowed in the approved legislation.
- SDSU owes the HEFF account \$204,369.56 for the graduate assistant tuition waiver. You will recall that starting in FY17 that SDSU was no longer going to charge graduate assistants tuition. This change required that SDSU still pay the HEFF amount on those credits. This amount was calculated after the end of the year and will be paid in FY18. Now that we have the process figured out we hope to process the payment at the end of each year.
- There was a credit hour loss from FY16 to FY17 of 3,467 hours that was not anticipated. Using the undergraduate resident rate, that amounted to an estimated \$95,569 in lost revenue.
- High School Dual Credit continues to grow replacing full pay credit hours. The increase in credits in FY17 was 2,582 credits which is a loss in FY17 of approximately \$26,070 of HEFF revenue.
- The above items total \$723,806. The estimate was off by \$853,875, but when taking the above into account the difference was only a shortfall of \$130,069. The difference is attributed to rounding the HEFF capture rate of 11.55% to 11.5%.

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.

## **IMPACT AND RECOMMENDATIONS**

The remaining projects on the 2012 Ten-Year Plan can be found in Attachment II. Based on current assumptions and revenues, \$10.5M of projects can be bonded in FY22 and \$12.5M in FY27. If this happens, it will have taken us 15 years to complete the projects that we thought we had the cash flow to complete in 10 years.

## **ATTACHMENTS**

Attachment I – HEFF Cash Flow Statement (October 2017)

Attachment II – 2012 Ten-Year Plan

**Board of Regents  
HEFF Cash Flow Statement  
October 2017**

<b>Fiscal Year</b>	<b>Beginning Balance July</b>	<b>Net 11.5% Tuition</b>	<b>M&amp;R Fee Revenue</b>	<b>Interest Revenue</b>	<b>Total Revenue</b>	<b>FY M&amp;R Expenditures</b>	<b>Lease Payment</b>	<b>Total Expenditures</b>	<b>Obligated Unexpended</b>	<b>Ending Cash</b>	<b>Unobligated Funds</b>
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	27,962,164	2,201,902	716,848	30,880,913	13,732,226	16,960,075	30,692,300	14,707,915	27,573,130	12,865,215
2017	27,573,130	26,874,770	0	796,177	27,670,947	13,905,136	13,754,120	27,659,256	16,134,768	27,584,821	11,450,053
2018	27,584,821	27,143,518	0	463,502	27,607,019	27,546,344	14,114,433	41,660,776	4,000,000	13,531,064	9,531,064
2019	13,531,064	27,686,388	0	405,932	28,092,320	15,081,690	14,048,716	29,130,405	4,000,000	12,492,978	8,492,978
2020	12,492,978	28,240,116	0	374,789	28,614,905	15,399,735	14,054,162	29,453,897	4,000,000	11,653,986	7,653,986
2021	11,653,986	28,804,918	0	349,620	29,154,538	15,724,560	13,530,254	29,254,814	4,000,000	11,553,709	7,553,709
2022	11,553,709	29,381,016	0	346,611	29,727,628	16,057,307	14,739,307	30,796,614	4,000,000	10,484,723	6,484,723
2023	10,484,723	29,968,637	0	314,542	30,283,178	16,397,497	14,718,873	31,116,370	4,000,000	9,651,531	5,651,531
2024	9,651,531	30,568,009	0	289,546	30,857,555	16,741,658	14,740,661	31,482,319	4,000,000	9,026,767	5,026,767
2025	9,026,767	31,179,370	0	270,803	31,450,173	17,095,255	14,547,188	31,642,443	4,000,000	8,834,497	4,834,497
2026	8,834,497	31,802,957	0	265,035	32,067,992	17,452,488	14,548,881	32,001,369	4,000,000	8,901,120	4,901,120
2027	8,901,120	32,439,016	0	267,034	32,706,050	19,011,619	14,190,679	33,202,298	4,000,000	8,404,871	4,404,871
2028	8,404,871	33,087,796	0	252,146	33,339,943	19,384,974	13,578,537	32,963,511	4,000,000	8,781,302	4,781,302
2029	8,781,302	33,749,552	0	263,439	34,012,991	19,765,796	13,570,355	33,336,151	4,000,000	9,458,143	5,458,143
2030	9,458,143	34,424,543	0	283,744	34,708,288	20,154,235	12,580,538	32,734,773	4,000,000	11,431,658	7,431,658

Notes:

1. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
2. Stable enrollments for FY18 and beyond. FY18 tuition increase is 1% and 2% each year thereafter.
3. FY17 net tuition revenues are down as well as the M&R Fee Revenue because of the payoff of the 2008A-3 and 2008B series bonds and redirection of the dollars to support the tuition freeze.
4. Additional capital projects of \$10.5M would be bonded in FY22 and \$12.5M in FY27. This would complete the 2012 Ten-Year Capital Plan.
5. All figures for periods after June 30, 2017 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
<b>Infrastructure Projects**</b>									
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	<u>\$8,000,000</u>		<u>\$2,000,000</u>	<u>\$10,000,000</u>	<u>\$8,000,000</u>			<u>\$0</u>
		\$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.									
<b>Building Projects</b>									
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	<u>\$7,500,000</u>		<u>\$0</u>	<u>\$7,500,000</u>	<u>\$0</u>			<u>\$7,500,000</u>
		\$76,385,000	\$2,000,000	\$58,880,513	\$137,265,513	\$33,345,000	\$12,040,000	\$13,000,000	\$18,000,000
<b>Total Infrastructure Plus Building Projects</b>		\$105,000,000	\$2,000,000	\$77,357,513	\$184,357,513	\$56,960,000	\$12,040,000	\$13,000,000	\$23,000,000