

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 7 – H

DATE: October 3-5, 2017

SUBJECT: SDSU Residence Hall 2% M&R Plan

In April 2013, the Board updated its maintenance and repair policy requiring that a minimum of 2% of replacement values be invested in maintenance and repair annually for residential facilities. Investments could be averaged over a five-year period to get to the 2% annual investment. SDSU has not been investing the necessary funds into the residential facilities and was required to put together a funding plan as a condition of moving forward with the SE neighborhood project development.

Currently residential life buildings at SDSU have a value of \$228,364,431, as a result, their suggested average maintenance & repair spend is \$4,567,289 annually. Looking forward, SDSU will commit future net revenues and proceeds from rental increases to meet the requirement.

The current policy provides that maintenance and repair projects that have been debt financed are amortized over the life of the bonds, are included in the maintenance and repair calculation and are counted annually towards the 2% requirement. For FY18, this amount for SDSU is \$808,442. The second source of maintenance and repair dollars are the net revenues for residential life after operating expenses and debt service has been paid. This amount in FY17 was \$3,235,666. For FY18, SDSU is projecting net revenue for residential life to be \$3,585,666; the increase is a result of a reduction in operating expenses including administrative expenses charged to residential life. In addition, SDSU plans to realign the workload of community assistants in FY19 to reduce annual front desk labor costs and eliminate some community assistants in select halls. These changes are expected to net \$245,220 in savings. In addition to these savings, SDSU is requesting a 1.5% increase in residential rates above inflation in each FY19 and FY20. Each 1.5% increase will result in increased rates for students of \$30-\$37 per semester and will result in additional net revenue of \$264,057.

A summary of the SDSU FY18, FY19 and FY20 plans and revenue sources to fund the plan follows:

(Continued)

DRAFT MOTION 20171003_7-H: I move approval of the SDSU 2% maintenance and repair plan including the approval in rental rates above inflation of 1.5% each year in FY19 and FY20 if deemed necessary to meet the plan.

SDSU Residence Hall 2% M&R Plan

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FY18 M&R Funding	
2% Requirement	(\$4,567,289)
Bonded M&R Credit	\$808,442
Net Revenues Committed to M&R	<u>\$3,585,666</u>
Shortfall	(\$173,181)

FY19 M&R Funding	
2% Requirement (Inflated by 3%)	(\$4,704,308)
Bonded M&R Credit	\$808,442
Net Revenues Committed to M&R	\$3,585,666
Staffing Changes	\$245,220
1.5% Rate Increase	<u>\$264,057</u>
Excess	\$199,077

FY20 M&R Funding	
2% Requirement (Inflated by 3%)	(\$4,845,437)
M&R for SE Neighborhood	(\$296,853)
Bonded M&R Credit	\$808,442
Net Revenues Committed to M&R	\$3,585,666
Staffing Changes	\$245,220
FY19 1.5% Rate Increase	\$264,057
FY20 1.5% Rate Increase	<u>\$264,057</u>
Excess	\$25,152

The net revenues committed to M&R could increase each year by inflation, but that amount has traditionally been less than the inflation on replacement values. The numbers could be better or worse depending on occupancy, but assume status quo. This conservative plan makes sure that the 2% requirement can be met, and commits SDSU to putting the resources toward facility maintenance and repair moving forward. If available revenues based on projections are sufficient to fund the 2% plan, no rate increase will be requested.