

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 6 – D
DATE: October 2-4, 2018

SUBJECT

HEFF Cash Flow Statement

CONTROLLING STATUTE, RULE, OR POLICY

[SDCL 13-51-2](#) Educational Facilities Fund

[SDCL 13-53-15](#) Receipt by State Treasurer of Institutional Moneys

[SDCL 13-53-15.3](#) Medical School Funds

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 from 20% to 11.5%, the same amount of revenue to support HEFF debt and maintenance and repair is generated because it is assessed on a much larger base.

Attachment I is a cash flow statement for the Higher Education Facilities Fund as of August 2018. The statement presents actual and planned revenues and expenditures for FY17 through FY35. The statement includes the following data and assumptions:

- FY17 and FY18 are actuals, and FY19 through FY35 are projections;
- FY19 tuition revenue estimates are based upon FY18 actuals with a 2.6% weighted average tuition increase;
- Interest earnings of 3% on the unobligated cash balance plus \$4.0M of unspent maintenance and repair funds;
- FY20 and beyond assumes a 2% tuition increase and stable enrollments;
- A change from principal only payments on the SDSU Performing Arts Center to principal and interest in FY22.
- Bonding \$10.5M in capital projects in FY22 and \$12.5M in FY27 at 4.0% interest and for 25 years. This bonding would complete the 2012 Ten-Year Capital Plan.

(Continued)

INFORMATIONAL ITEM

The HEFF revenues generated for FY18 were \$127,628 lower than the projection. Interest earnings were up \$69,753 over the projection, resulting in a total revenue shortfall of only \$57,875 or a difference of 0.2%. The difference in the HEFF revenue appears to be due to growth in dual credit hours which generate less HEFF per credit, and a slight decline in overall credit hours.

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 (August 2018)

Attachment II – 2012 Ten-Year Plan

**Board of Regents
HEFF Cash Flow Statement
August 2018**

Fiscal Year	Beginning Balance July	Net 11.5% Tuition	Interest Revenue	Total Revenue	FY M&R Expenditures	Lease Payment	Total Expenditures	Obligated Unexpended	Ending Cash	Unobligated Funds
2017	27,573,130	26,874,770	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	27,015,890	533,255	27,549,144	14,624,633	14,075,654	28,700,287	16,921,710	26,433,678	9,511,968
2019	26,433,678	27,718,303	405,359	28,123,662	28,003,400	14,048,716	42,052,115	4,000,000	12,505,224	8,505,224
2020	12,505,224	28,272,669	375,157	28,647,826	15,399,735	14,054,162	29,453,897	4,000,000	11,699,153	7,699,153
2021	11,699,153	28,838,122	350,975	29,189,097	15,724,560	13,530,254	29,254,814	4,000,000	11,633,436	7,633,436
2022	11,633,436	29,414,885	349,003	29,763,888	16,057,307	14,739,307	30,796,614	4,000,000	10,600,709	6,600,709
2023	10,600,709	30,003,183	318,021	30,321,204	16,397,497	14,718,873	31,116,370	4,000,000	9,805,543	5,805,543
2024	9,805,543	30,603,246	294,166	30,897,413	16,741,658	14,740,661	31,482,319	4,000,000	9,220,637	5,220,637
2025	9,220,637	31,215,311	276,619	31,491,930	17,095,255	14,547,188	31,642,443	4,000,000	9,070,124	5,070,124
2026	9,070,124	31,839,617	272,104	32,111,721	17,452,488	14,548,881	32,001,369	4,000,000	9,180,476	5,180,476
2027	9,180,476	32,476,410	275,414	32,751,824	19,011,619	14,190,679	33,202,298	4,000,000	8,730,001	4,730,001
2028	8,730,001	33,125,938	261,900	33,387,838	19,384,974	13,578,537	32,963,511	4,000,000	9,154,328	5,154,328
2029	9,154,328	33,788,457	274,630	34,063,087	19,765,796	13,570,355	33,336,151	4,000,000	9,881,264	5,881,264
2030	9,881,264	34,464,226	296,438	34,760,664	20,154,235	12,580,538	32,734,773	4,000,000	11,907,154	7,907,154
2031	11,907,154	35,153,510	476,286	35,629,796	24,550,442	12,088,850	36,639,292	4,000,000	10,897,659	6,897,659
2032	10,897,659	35,856,581	435,906	36,292,487	24,954,573	12,069,451	37,024,024	4,000,000	10,166,122	6,166,122
2033	10,166,122	36,573,712	406,645	36,980,357	25,366,788	9,186,543	34,553,331	4,000,000	12,593,148	8,593,148
2034	12,593,148	37,305,186	503,726	37,808,912	25,787,246	9,181,173	34,968,419	4,000,000	15,433,642	11,433,642
2035	15,433,642	38,051,290	617,346	38,668,636	26,216,114	8,219,979	34,436,093	4,000,000	19,666,184	15,666,184

Notes:

1. Fiscal years 2017 and 2018 are actuals.
2. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
3. Stable enrollments for FY19 and beyond. FY19 tuition increase is an average of 2.6%, each year thereafter the tuition increase projection is 2%.
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, 2018 are estimates.

**2012 Ten-Year Plan Proposed Funding Schedule
September 2018**

<u>Project</u>		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 &	\$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
	Totals	\$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	Precision Ag & Berg Hall Remodel*	\$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
	Totals	\$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

* Requires a change to legislation