

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 6 – A

DATE: October 7, 2020

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 September 2020. The statement presents actual and planned revenues and expenditures for FY17 through FY35. The statement includes the following data and assumptions:

- FY17 through FY20 are actuals and FY21 through FY35 are projections.
- FY21 tuition revenue estimates are based upon FY20 actuals with no tuition increase and a three percent decline in enrollment.
- Interest earnings of three percent on the unobligated cash balance for FY21 including \$3.0M to \$4.0M of unspent maintenance and repair funds thereafter.
- FY22 and beyond assumes a two percent tuition increase and stable enrollments.
- A change from principal only payments on the SDSU Performing Arts Center to principal and interest in FY22, approximately a \$510,000 increase in HEFF obligations.
- Bonding \$10.5M in capital projects in FY22 and \$12.5M in FY27 at four percent interest and for 25 years. This bonding would complete the 2012 Ten-Year Capital Plan.

(Continued)

INFORMATIONAL ITEM

The 11.5% of tuition revenues generated for FY19 were \$636,121 lower than the projection from October 2018 and the revenues generated for FY20 were \$1,305,194 lower than the projection from October 2019. The nearly \$2.0M variance from projected revenue to actual revenues collected for FY19 and FY20 puts a significant burden on HEFF. As a result, FY22 through FY27 will see a decline in the projected funds available for M&R allocation as well as a decrease in the reserve fund from \$4.0M to \$3.0M.

The ending cash assumes that the campuses will catch-up on their M&R expenditures in FY21 by spending all of the obligated funds except \$4,000,000. The drop in cash from 2020 to 2021 reflects that assumption. 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. 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 debt 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 originally thought we had the cash flow to complete in 10 years.

Since both the USD Allied Health Facility (\$7.5M) and the E.Y Berry Library (\$3.0M) projects were approved during the last legislative session and those projects are already in progress, we will plan to move forward with a \$10.5M bond issuance in FY22. In FY22, the fund will also pick up the interest costs portion of the debt service for the SDSU Performing Arts Center, of around \$510,000 per year. The remaining SDSU projects totaling \$12.5M would not be bonded until FY27 based on current projections.

ATTACHMENTS

Attachment I – HEFF Cash Flow Statement (September 2020)

Attachment II – 2012 Ten-Year Plan

**Board of Regents
HEFF Cash Flow Statement
September 2020**

A	B	C	D	E = C + D	F	G	H = F + G	I = B + E - H	J	K = I - J
<u>Fiscal Year</u>	<u>Beginning Balance July</u>	<u>Net 11.5% Tuition</u>	<u>Interest Revenue</u>	<u>Total Revenue</u>	<u>FY M&R Expenditures</u>	<u>Lease Payment</u>	<u>Total Expenditures</u>	<u>Ending Cash</u>	<u>Obligated Unexpended</u>	<u>Unobligated Funds</u>
2017	27,573,130	26,874,770	796,177	27,670,947	13,905,136	13,754,120	27,659,256	27,584,821	16,134,768	11,450,053
2018	27,584,821	27,015,890	533,255	27,549,144	14,624,633	14,075,654	28,700,287	26,433,678	16,921,710	9,511,968
2019	26,433,678	26,619,716	480,852	27,100,568	16,873,736	14,009,610	30,883,346	22,650,899	15,149,664	7,501,235
2020	22,650,899	26,192,973	559,527	26,752,500	19,850,856	13,105,659	32,956,515	16,446,884	11,218,596	5,228,288
2021	16,446,884	25,407,184	493,407	25,900,590	21,206,364	13,530,254	34,736,618	7,610,857	4,000,000	3,610,857
2022	7,610,857	25,915,328	228,326	26,143,653	15,000,000	14,739,307	29,739,307	4,015,203	3,000,000	1,015,203
2023	4,015,203	26,433,634	120,456	26,554,090	12,500,000	14,718,873	27,218,873	3,350,420	3,000,000	350,420
2024	3,350,420	26,962,307	100,513	27,062,819	12,500,000	14,740,661	27,240,661	3,172,578	3,000,000	172,578
2025	3,172,578	27,501,553	95,177	27,596,730	12,500,000	14,547,188	27,047,188	3,722,121	3,000,000	722,121
2026	3,722,121	28,051,584	111,664	28,163,248	13,500,000	14,548,881	28,048,881	3,836,487	3,000,000	836,487
2027	3,836,487	28,612,616	115,095	28,727,710	14,500,000	14,190,679	28,690,679	3,873,518	3,000,000	873,518
2028	3,873,518	29,184,868	116,206	29,301,073	15,500,000	13,578,537	29,078,537	4,096,054	4,000,000	96,054
2029	4,096,054	29,768,565	122,882	29,891,447	16,250,000	13,570,355	29,820,355	4,167,146	4,000,000	167,146
2030	4,167,146	30,363,937	125,014	30,488,951	17,500,000	12,580,538	30,080,538	4,575,559	4,000,000	575,559
2031	4,575,559	30,971,215	137,267	31,108,482	18,500,000	12,088,850	30,588,850	5,095,191	4,000,000	1,095,191
2032	5,095,191	31,590,640	152,856	31,743,495	19,500,000	12,069,451	31,569,451	5,269,235	4,000,000	1,269,235
2033	5,269,235	32,222,452	158,077	32,380,529	20,500,000	9,186,543	29,686,543	7,963,222	4,000,000	3,963,222
2034	7,963,222	32,866,901	238,897	33,105,798	21,500,000	9,181,173	30,681,173	10,387,848	4,000,000	6,387,848
2035	10,387,848	33,524,240	311,635	33,835,875	22,500,000	8,219,979	30,719,979	13,503,743	4,000,000	9,503,743

Notes:

1. Fiscal years 2017-2020 are actuals.
2. 3.0% interest earnings calculation based on the ending cash balance plus \$4,000,000 for unexpended M&R funds.
3. 3% decline in enrollment for FY21, no increase in tuition. FY22 and each year thereafter tuition revenue increase of 2.0%.
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 Fiscal Year 2020 are estimates.

2012 Ten-Year Plan Proposed Funding Schedule
September 2020

Project		Fund Sources				Bonded			Proposed Bonding	
		HEFF Bonds	Other Bonds	Other Funds	Project Total	FY2014	FY2015	FY2017	FY22	FY27
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	\$0	\$5,000,000
Building Projects										
BHSU	Jonas Science Renovation	\$1,250,000		\$2,900,000	\$4,150,000	\$1,250,000				\$0
BHSU	E. Y. Berry Library Renovation	\$3,000,000		\$1,500,000	\$4,500,000	\$0			\$3,000,000	\$0
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		\$9,108,648	\$14,108,648	\$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		\$5,755,142	\$15,755,142	\$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		\$35,391,807	\$48,391,807	\$0		\$13,000,000		\$0
SDSU	New Cow-Calf Research & Education Unit - Volga	\$900,000	\$2,000,000	\$1,732,500	\$4,632,500	\$900,000				\$0
USD	Science, Health, and Research Lab Building*	\$9,695,000		\$3,904,085	\$13,599,085	\$8,695,000				\$0
USD	Patterson Hall Renovation	\$5,500,000		\$250,000	\$5,750,000	\$6,500,000				\$0
USD	Allied Health Facility	\$7,500,000		\$0	\$7,500,000	\$0			\$7,500,000	\$0
		\$76,385,000	\$2,000,000	\$74,775,182	\$153,160,182	\$33,345,000	\$12,040,000	\$13,000,000	\$10,500,000	\$7,500,000
Total Infrastructure Plus Building Projects		\$105,000,000	\$2,000,000	\$93,252,182	\$200,252,182	\$56,960,000	\$12,040,000	\$13,000,000	\$10,500,000	\$12,500,000

** Other funds will come from campus HEFF M&R allocations.