

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 6 – G
DATE: October 5-6, 2022

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, except for 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 October 2022. The statement presents actual and planned revenues and expenditures for FY18 through FY35. The statement includes the following data and assumptions:

- FY18 through FY22 are actuals and FY23 through FY35 are projections.
- FY23 tuition revenue estimates and beyond are based upon FY22 actuals with no tuition increase in FY23 and stable enrollments.
- Interest earnings of three percent on the unobligated cash balance for FY23 including \$3.0M to \$4.0M of unspent maintenance and repair funds thereafter.
- A change from principal only payments on the SDSU Performing Arts Center to principal and interest in FY22, results in 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 for 25 years. This bonding would complete the 2012 Ten-Year Capital Plan.

(Continued)

INFORMATIONAL ITEM

The 11.5% of tuition revenues generated for FY22 were \$1,348,862 lower than the projection from October 2021, while the revenues generated for FY21 were \$804,746 higher than the projection from October 2020. Prior to the rebound in FY21, the variance between actual and projected revenue was more than \$2.0M, putting a significant burden on HEFF. As a result, FY22 through FY29 saw 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 FY23 by spending all the obligated funds except \$3,000,000. The drop in cash from 2022 to 2023 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 were bonded in FY22 and \$12.5M will be bonded in FY27. If this timeline holds true, 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 2020 legislative session and those projects were already in progress, we moved forward with a \$10.5M bond issuance in FY22. In FY22, the fund also picked 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 will not be bonded until FY27 based on current projections.

ATTACHMENTS

Attachment I – HEFF Cash Flow Statement (October 2022)

Attachment II – 2012 Ten-Year Plan

Board of Regents
HEFF Cash Flow Statement
October 2022

| A | B | C | D | E | F | G | H | I | J | K |
|--------------------|-------------------------------|--------------------------|-------------------------|----------------------|--------------------------------|----------------------|---------------------------|--------------------|-----------------------------|--------------------------|
| | | | | = C + D | | | = F + G | = B + E - H | | = 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> |
| 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 | 460,852 | 27,080,568 | 16,873,736 | 14,009,610 | 30,883,346 | 22,630,899 | 15,149,664 | 7,481,235 |
| 2020 | 22,630,899 | 26,165,832 | 654,245 | 26,820,078 | 18,990,746 | 14,013,347 | 33,004,093 | 16,446,884 | 11,226,940 | 5,219,944 |
| 2021 | 16,446,884 | 26,211,930 | 1,071,199 | 27,283,129 | 11,910,638 | 14,414,703 | 26,325,341 | 17,404,672 | 13,130,991 | 4,273,681 |
| 2022 | 17,404,672 | 25,387,307 | 605,547 | 25,992,854 | 9,735,780 | 15,909,499 | 25,645,280 | 17,752,246 | 13,268,116 | 4,484,131 |
| 2023 | 17,752,246 | 25,387,307 | 532,567 | 25,919,874 | 19,373,355 | 16,403,566 | 35,776,922 | 7,895,199 | 3,000,000 | 4,895,199 |
| 2024 | 7,895,199 | 25,895,053 | 236,856 | 26,131,909 | 12,000,000 | 16,404,759 | 28,404,759 | 5,622,349 | 3,000,000 | 2,622,349 |
| 2025 | 5,622,349 | 26,412,954 | 168,670 | 26,581,625 | 12,000,000 | 16,374,383 | 28,374,383 | 3,829,590 | 3,000,000 | 829,590 |
| 2026 | 3,829,590 | 26,941,213 | 114,888 | 27,056,101 | 11,500,000 | 16,160,058 | 27,660,058 | 3,225,633 | 3,000,000 | 225,633 |
| 2027 | 3,225,633 | 27,480,037 | 96,769 | 27,576,806 | 12,000,000 | 15,774,487 | 27,774,487 | 3,027,952 | 3,000,000 | 27,952 |
| 2028 | 3,027,952 | 28,029,638 | 90,839 | 28,120,477 | 12,500,000 | 15,128,004 | 27,628,004 | 3,520,425 | 3,000,000 | 520,425 |
| 2029 | 3,520,425 | 28,590,231 | 105,613 | 28,695,844 | 13,500,000 | 15,086,455 | 28,586,455 | 3,629,813 | 3,000,000 | 629,813 |
| 2030 | 3,629,813 | 29,162,036 | 108,894 | 29,270,930 | 14,500,000 | 14,055,431 | 28,555,431 | 4,345,312 | 4,000,000 | 345,312 |
| 2031 | 4,345,312 | 29,745,276 | 130,359 | 29,875,636 | 15,500,000 | 13,524,645 | 29,024,645 | 5,196,302 | 4,000,000 | 1,196,302 |
| 2032 | 5,196,302 | 30,340,182 | 155,889 | 30,496,071 | 17,500,000 | 13,462,771 | 30,962,771 | 4,729,602 | 4,000,000 | 729,602 |
| 2033 | 4,729,602 | 30,946,985 | 141,888 | 31,088,873 | 20,500,000 | 10,539,450 | 31,039,450 | 4,779,026 | 4,000,000 | 779,026 |
| 2034 | 4,779,026 | 31,565,925 | 143,371 | 31,709,296 | 21,500,000 | 10,486,539 | 31,986,539 | 4,501,782 | 4,000,000 | 501,782 |
| 2035 | 4,501,782 | 32,197,244 | 135,053 | 32,332,297 | 22,500,000 | 9,479,973 | 31,979,973 | 4,854,106 | 4,000,000 | 854,106 |

Notes:

1. Fiscal years 2018-2021 are actuals.
2. 3.0% interest earnings calculation based on the ending cash balance plus unexpended M&R funds.
3. 2.5% decline in enrollment for FY22, no tuition increase. FY23 flat enrollment and no tuition increase. FY24 and each year thereafter, revenue is increased by 2.0%.
4. Additional capital projects of \$12.5M will be bonded in FY27. This would complete the 2012 Ten-Year Capital Plan.
5. All figures for periods after FY22 are estimates.
6. Reduction of "Reserve" balance to \$3.0M for FY22-FY29. This also includes reductions in HEFF allocations for those years.

2012 Ten-Year Plan Proposed Funding Schedule
10/1/2022

| Project | | Fund Sources | | | | Bonded | | | | Proposed Bonding |
|--|--|---------------|-------------|--------------|---------------|--------------|--------------|--------------|--------------|------------------|
| | | HEFF Bonds | Other Bonds | Other Funds | Project Total | FY14 | FY15 | FY17 | 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.