

# **SOUTH DAKOTA BOARD OF REGENTS**

## **Budget and Finance**

**AGENDA ITEM: 6 – D**  
**DATE: December 8-9, 2021**

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### **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 October 2021. The statement presents actual and planned revenues and expenditures for FY18 through FY35. The statement includes the following data and assumptions:

- FY18 through FY21 are actuals and FY22 through FY35 are projections.
- FY22 tuition revenue estimates and beyond are based upon FY21 actuals with a 2.0% tuition increase and stable enrollments.
- Interest earnings of three percent on the unobligated cash balance for FY22 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 and for 25 years. This bonding would complete the 2012 Ten-Year Capital Plan.

(Continued)

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### **INFORMATIONAL ITEM**

The 11.5% of tuition revenues generated for FY20 were \$1,305,194 lower than the projection from October 2019, 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 FY27 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 FY22 by spending all of the obligated funds except \$3,000,000. The drop in cash from 2021 to 2022 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 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 are already in progress, we are moving forward with a \$10.5M bond issuance this fiscal year. 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 2021)

Attachment II – 2012 Ten-Year Plan

**Board of Regents  
HEFF Cash Flow Statement  
October 2021**

A	B	C	D	E = C + D	F	G	H = F + G	I = B + E - H	J	K = I - J
<b>Fiscal Year</b>	<b>Beginning Balance July</b>	<b>Net 11.5% Tuition</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>Ending Cash</b>	<b>Obligated Unexpended</b>	<b>Unobligated Funds</b>
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	26,736,169	522,140	27,258,309	22,847,760	16,200,590	39,048,350	5,614,631	3,000,000	2,614,631
2023	5,614,631	27,270,892	168,439	27,439,331	12,500,000	16,403,566	28,903,566	4,150,395	3,000,000	1,150,395
2024	4,150,395	27,816,310	124,512	27,940,822	12,500,000	16,404,759	28,904,759	3,186,458	3,000,000	186,458
2025	3,186,458	28,372,636	95,594	28,468,230	12,000,000	16,374,383	28,374,383	3,280,304	3,000,000	280,304
2026	3,280,304	28,940,089	98,409	29,038,498	12,000,000	16,160,058	28,160,058	4,158,744	3,000,000	1,158,744
2027	4,158,744	29,518,891	124,762	29,643,653	13,500,000	15,774,487	29,274,487	4,527,910	3,000,000	1,527,910
2028	4,527,910	30,109,268	135,837	30,245,106	14,500,000	15,128,004	29,628,004	5,145,011	4,000,000	1,145,011
2029	5,145,011	30,711,454	154,350	30,865,804	16,250,000	15,086,455	31,336,455	4,674,360	4,000,000	674,360
2030	4,674,360	31,325,683	140,231	31,465,914	17,500,000	14,055,431	31,555,431	4,584,842	4,000,000	584,842
2031	4,584,842	31,952,196	137,545	32,089,742	18,500,000	13,524,645	32,024,645	4,649,939	4,000,000	649,939
2032	4,649,939	32,591,240	139,498	32,730,738	19,500,000	13,462,771	32,962,771	4,417,906	4,000,000	417,906
2033	4,417,906	33,243,065	132,537	33,375,602	20,500,000	10,539,450	31,039,450	6,754,059	4,000,000	2,754,059
2034	6,754,059	33,907,926	202,622	34,110,548	21,500,000	10,486,539	31,986,539	8,878,068	4,000,000	4,878,068
2035	8,878,068	34,586,085	266,342	34,852,427	22,500,000	9,479,973	31,979,973	11,750,522	4,000,000	7,750,522

Notes:

1. Fiscal years 2018-2021 are actuals.
2. 3.0% interest earnings calculation based on the ending cash balance plus \$3,000,000 for unexpended M&R funds.
3. 3% decline in enrollment for FY21, no tuition increase. FY22 and each year thereafter, tuition revenue is increased by 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 FY21 are estimates.
6. Reduction of "Reserve" balance to \$3.0M for FY22-FY27. This also includes reductions in HEFF allocations for those years.

**2012 Ten-Year Plan Proposed Funding Schedule**  
10/1/2021

<u>Project</u>		<u>Fund Sources</u>				<u>Bonded</u>			<u>Proposed Bonding</u>	
		<u>HEFF Bonds</u>	<u>Other Bonds</u>	<u>Other Funds</u>	<u>Project Total</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2017</u>	<u>FY22</u>	<u>FY27</u>
<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	\$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
<b>Building Projects</b>										
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
<b>Total Infrastructure Plus Building Projects</b>		\$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.