

# Higher Education Funds Expenditures

These guidelines cover the allocation, management, budgeting, expenditures, and related restrictions of Higher Education Funds (HEF), appropriated to Stephen F. Austin State University (SFA). These guidelines apply to the use of HEF funds by all departments and units of the University.

## DEFINITIONS

Higher Education Fund: Beginning September 1, 1985, permanent capital funding provided under Article VII, Section 17 of the Texas Constitution for Texas Higher Education Institutions that are not participants in the Permanent University Fund (PUF). These funds are General Revenue funds that must reside in and must be expended from the State Treasury.

HEF treasury funds: Those HEF funds expended by the University, subject to state expenditure procedures and restrictions, and reimbursed from the State.

HEF bond funds: Those funds secured by HEF treasury funds that are obtained through bonds issued in accordance with Article VII, Section 17 of the Texas Constitution.

Interdepartmental Transfer (IDT): Charges and payments recorded between university departments for goods and/or services without the need to write a check.

Operating Expenses: Costs incurred for services or items with a useful life of less than one year.

Consumable Supplies: A category of operating expenses for items which likely will be consumed within one year. These are expensed, rather than being capitalized as assets. Some items may have an expected useful life of more than one year, but are of nominal value and are expensed. This would include paper products, toner, paper clips, pens, pencils, and other similar items.

Capital Equipment: Fixed or moveable tangible assets to be used for operations, the benefits of which extend over more than one fiscal year. See "Acquisition of capital equipment, library books, and library materials" in AUTHORIZED HEF EXPENDITURES AND GUIDELINES Section, below, for specific guidelines related to HEF.

In accordance with Article VII, Section 17(a) of the Texas Constitution, Higher Education Assistance Funds are appropriated for the following purposes:

- a. Acquisition of land, with or without permanent improvements;
- b. Construction and equipping of buildings or other permanent improvements;
- c. Major repair or rehabilitation of buildings or other permanent improvements;
- d. Acquisition of capital equipment, library books, and library materials; and
- e. Payment of principal and interest on bonds issued under this authority.

See AUTHORIZED HEF EXPENDITURES AND GUIDELINES Section, below, for additional information.

HEF funds are to be used only for Educational and General (E&G) purposes. HEF may not be used for:

- a. Student housing
- b. Intercollegiate athletics
- c. Auxiliary enterprises

However, in the case of renovation of a building used in part for auxiliary enterprises, HEF may be used proportionally for the Education and General portion of the building.

Article VII also provides that governing boards may issue bonds or notes and pledge HEF funds for up to fifty percent of money allocated to the university to secure the payment of the principal and interest on the bonds or notes.

### **AUTHORIZED HEF EXPENDITURES AND GUIDELINES**

Acquisition of land, with or without permanent improvements - for purposes of HEF funds, the following definitions and guidelines apply:

- a. Land: The surface or crust of the earth which can be used to support structure and which may be used to grow crops, grass, shrubs, and trees.
- b. Cost of land may include:
  - Purchase price
  - Commissions
  - Fees for examining and recording titles
  - Surveying
  - Appraisal costs
  - Drainage costs
  - Land clearing
  - Demolition of existing improvements (less salvage)
  - Landfilling
  - Grading
  - Interest on mortgages accrued at date of purchase
  - Accrued and unpaid taxes at the date of purchase
  - Other costs incurred in acquiring the land
- c. Unless approved in advance by the Texas Legislature, an institution cannot use HEF funds to acquire land for a branch campus or educational center that is not a separate degree-granting institution created by general law.

Construction and equipping of buildings or other permanent improvements - for purposes of HEF funds, the following definitions and guidelines apply:

- a. Constructing and equipping: The process of erecting buildings and providing equipment that will assure that the buildings can be used for the purposes intended,

and the constructing and equipping of other permanent improvements. This category includes additions to and equipping of existing buildings. It does not include consumable supplies.

- b. Buildings: Roofed structures (conventional or underground) that house operations. This category includes storage structures and additions to buildings meeting this definition.
- c. Other permanent improvements: Assets that enhance the quality of land or buildings or facilitate the use of land or buildings and that have finite but extended lives. Permanency is relative and should be interpreted in terms of the periods of usefulness. Only land can be considered permanent in any absolute sense. (Examples: paving; lighting; fences; sewers; electrical distribution systems; water systems; sewer systems; landscaping; air conditioning; elevators; vent hoods; energy management systems; mechanical, plumbing, and electrical systems; voice-and-data systems; computing systems; and the like.) Systems that in normal usage could be moved from building to building or from room to room are not considered permanent improvements.
- d. Cost of buildings may include:
  - Original contract price or cost of construction
  - Expenses for remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired
  - Payment of unpaid or accrued taxes on the building to the date of purchase
  - Cancellation or buy-out of existing leases
  - Other costs related to placing the asset into operation
- e. Construction costs of buildings and other permanent improvements may include:
  - The completed project
  - Excavation, grading, or filing of land for a specific building
  - Preparation of plans, specifications, blueprints, etc.
  - Building permits
  - Architect's, engineer's, or management fees for design and supervision
  - Legal fees
  - Temporary buildings used during construction
  - Unanticipated costs such as rock blasting, piling, or relocation of channel of underground stream
  - Drainage costs
  - Land clearing
  - Demolition of existing improvements
  - Maintenance agreements purchased as part of the original acquisition (such as those for software application programs and operation systems or for energy management systems)
- f. Equipping costs may include:
  - Original contract or invoice of the furnishings or equipment
  - Freight-in, import duties, handling, and storage
  - Specific in-transit insurance

- Sales, use, and other taxes imposed on the acquisition
  - Site preparation
  - Installation
  - Testing and preparation for use
  - Reconditioning used items when purchased
  - Maintenance agreements purchased as part of the original acquisition
  - Development of software application programs and operating systems
- g. Unless approved in advance by the Texas Legislature, institutions cannot use these funds for constructing and equipping buildings and other improvements for a branch campus or educational center that is not a separate degree-granting institution created by general law.

Major repairs or rehabilitation of buildings or other permanent improvements - may include the following categories for the purposes of HEF funds:

1. Repairs
  2. Renovations
  3. Replacements
  4. Improvements
- a. These improvements are normally expected to:
- Extend the useful life in excess of one year
  - Improve operating efficiency
  - Eliminate health and safety hazards
  - Correct structural or mechanical defects
  - Upgrade the quality of existing facilities
  - Convert these assets to more useful functions
- b. HEF funds may be used to purchase hardware and building supplies for use on “major” construction or renovation projects. This does not include projects for routine maintenance, repairs, cleaning, painting, replacement of a part or component with a comparable part, or for minimal increase in life expectancy of an existing building. Qualifying HEF projects must have a total cost exceeding \$5,000, the State’s established floor for capital assets.

Acquisition of capital equipment, library books, and library materials - for purposes of HEF funds, the following definitions and guidelines apply:

- a. Capital equipment: Fixed or moveable tangible assets to be used for operations, the benefits of which extend over more than one year. These assets may be purchased from an outside vendor or constructed or developed by University employees. Computer software operating systems and application programs are considered capital equipment under this definition. Routine maintenance is not an allowable HEF expenditure.
- b. Equipment costs may include:
  - Original contract or invoice of the furnishings or equipment

- Freight-in, import duties, handling, and storage costs
  - Specific in-transit insurance
  - Sales, use, and other taxes imposed on the acquisition
  - Site preparation costs
  - Installation and associated training costs
  - Costs for testing and preparation for use
  - Costs of reconditioning used items
  - Maintenance agreements purchased as part of the original acquisition
  - Development costs of computer software
  - Consumable items only when required for equipment start-up
  - Equipment parts if the parts materially extend or increase the useful life of an existing piece of equipment. HEF may also be used for the purchase of parts or accessories for incorporation into a newly purchased piece of equipment. In these cases, the purchase order description must refer to the parent equipment by indicating the SFASU property number, the equipment serial number, and the parent equipment's original purchase order number, if known.
- c. Library: A collection of books and materials in locations approved by SFASU administration that is accessible to the general University community.
- d. Library book: A literary composition bound into a separate volume, generally identifiable as a separately copyrighted unit. Books should be distinguished from periodicals and journals.
- e. Library materials: Sources other than books (either owned or accessed), which provide information essential to the learning process, or which enhance the quality of University library programs, including:
- Journals
  - Periodicals
  - Microforms
  - Audiovisual media
  - Computer-based information
  - Manuscripts
  - Maps
  - Documents
- f. Cost of library books and library materials may include:
- Invoice price of books or library materials
  - Freight-in, handling, and insurance
  - Binding
  - Electronic access
  - Reproduction and like costs
  - Similar costs required to put these assets in place, excluding library salaries

Payment of principal and interest on bonds issued under Article VII, Section 17 (e) of the Texas Constitution

The Board of Regents may issue HEF bonds and notes for the purposes of acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, acquiring capital equipment, library books, and library materials, paying for acquiring, constructing, or equipping or for major repair or rehabilitation of buildings, facilities, other permanent improvements, or capital equipment used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for educational and general activities, and for major repair and rehabilitation of buildings or other permanent improvements, and may pledge up to 50 percent of the money allocated to the university pursuant to this section to secure the payment of the principal and interest of such bonds or notes. The bonds and notes issued under this subsection shall be payable solely out of the money appropriated by this section and shall mature serially or otherwise in not more than 10 years from their respective dates. All bonds issued under this section shall be sold only through competitive bidding and are subject to approval by the attorney general. Bonds approved by the attorney general shall be incontestable.

In addition, the SFASU Board of Regents is authorized to issue bonds to refund outstanding bonds or notes. Only bond proceeds issued under Article VII, Section 17 of the Texas Constitution can be used to refund bonds issued under prior law.

#### **OTHER RESTRICTIONS**

HEF transfers to plant funds for capital projects, renovations, replacements, bond payments, etc. do not lose their designation of HEF funds. Therefore, any restrictions applicable to HEF funds (13047x) apply to these funds as well.

Interdepartmental charges (IDT's) against HEF accounts may be processed as a HEF expenditure, but may not be eligible for reimbursement from HEF appropriations if the IDT includes labor which has been paid institutionally with other fund sources. Annually, the Controller's Office will review these charges and identify other HEF eligible charges to be used to offset any labor related costs charged to HEF accounts.

Advance payments are not allowed from HEF funds. In the event an advance payment is required, the payment may be made from a HEF account, but must be paid with local funds. When the final payment is made, the Controller's Office will seek reimbursement for any advance payment associated with that purchase order.

HEF funds may not be utilized for operating expenses or to purchase consumable supplies, except where consumables are not provided, but are required for equipment start-up.

Except for library purchases, HEF purchases on procurement cards are prohibited unless a written exception is approved by the P-Card Coordinator. Additionally, the P-Card Coordinator and Procurement and Property Services buyers may use their P-Cards for appropriate HEF fund purchases.

The Director of Procurement and Property Services and Controller are authorized to determine whether an expenditure is in accordance with HEF restrictions and guidelines. Purchases which do not conform will require another source of funding.

#### **ALLOCATION PROCEDURES**

Under the Texas Constitution, an annual allocation of funds to eligible institutions of higher education is determined every 10 years, beginning with 1985, and is reviewed and possibly revised at the end of the fifth year of each 10-year allocation period. Annual SFASU HEF allotments from this appropriation are then determined through a state allocation formula that is based upon the institutional space deficit, the condition of facilities, institutional complexity, and specified set-asides. The amount of the annual allotment is determined for the 10-year period, subject to a review at the end of five years.

HEF allocations are provided and budgeted for a specified fiscal year and are generally encumbered or expended within that fiscal year. Unless approval is granted to allow for expenditure over a longer finite period of time, the allotment is subject to reallocation by the VPFA to other university projects.

HEF funds must be maintained in segregated HEF accounts and may not be transferred to non-HEF accounts. Non-HEF funds may not be transferred into or intermixed with HEF accounts.

Throughout the year, the Controller's Office will monitor HEF expenditures and notify the departments of inappropriate charges. In cases where the charges are related to non-reimbursable IDT's, the Controller's Office will offset these charges with eligible HEF related expenditures charged to other funds.