

## GUIDELINES FOR EXPENDITURE OF HIGHER EDUCATION FUNDS

### Purpose

The purpose of this document is to establish guidelines for the appropriate use of Higher Education Fund (HEF) resources by participating universities.

### Background

With the repeal of the Ad Valorem Tax, many state colleges and universities no longer had resources for construction, improvements, major repair and rehabilitation, and the acquisition of capital equipment.

The Legislature of the State of Texas established the Higher Education Fund by adding Chapter 62 to the Texas Education Code. The amendment of Article VII, Section 17(a-l) of the Texas Constitution provided for the appropriation of \$100 million annually, beginning September 1 1985, out of the first money coming into the state treasury not otherwise appropriated by the constitution.

In accordance with Article VII, Section 17(a) of the Texas Constitution, HEF funds are appropriated for the following purposes:

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

Article VII, Section 17(f) provides that the funds appropriated by Section 17 may not be used to finance student housing, intercollegiate athletics, or auxiliary enterprises. **HEF funds are to be used only for Educational and General (E&G) purposes.** 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.

### General Principles

This section of the guidelines articulates the general principles which support the specific provisions authorized under Article VII, Section 17. These principles are expressed as definitions

of terms which are pertinent to the purpose of this document and relate to acquiring, constructing or improving tangible assets.

### **Definitions**

Capital equipment is defined as fixed or moveable tangible assets to be used for operations, the benefits of which extend over more than one fiscal year and having an individual cost of \$400.00. These assets may be acquired through purchase from an outside vendor or by construction or development by university employees. Computer software operating systems and application programs are considered capital equipment under this definition. The development, excluding routine maintenance, and acquisition of computer software are includable equipment costs. Subscription cloud-based services were approved by the 86<sup>th</sup> Legislature. Musical instruments are considered capital equipment having an individual cost greater than \$500 under this definition.

Controlled Assets are assets of the state identified by the Comptroller's office that must be secured and tracked in the State Property Accounting system. A controlled asset's value is below the capitalization threshold and is not depreciated or reported on the balance sheet. Examples include sound systems, digital cameras, desktop computers, laptop computers, drones, firearms, smartphones, tablets and televisions. **These items are HEF-eligible provided the proper purchasing procedures are followed.**

Consumable Supplies are a category of operating expenses for items which likely will be consumed within one year. These are expensed and **not eligible for HEF**. Some of the items may have an expected useful life of more than one year, but are of nominal value and are expensed. Typically, office supplies are consumable supplies.

Operating Expenses are costs incurred for services or items with a useful life of less than one year or they are items used to repair or maintain tangible assets. **These are not-HEF eligible.**

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

#### **Quick link to FAQ**

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 itsuitable 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
  - Architects, engineers, or management fees for design and supervision
  - Legal fees
  - Temporary buildings used during construction
  - Unanticipated costs such as rock blasting, piling, or relocation 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. Major repairs
2. Renovations
3. Replacements
4. 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

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 and have an individual cost of at least \$400.00. 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. This includes cloud computing subscription services. **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. **Repairs must be at least twenty-five percent (25%) of the replacement cost of capital assets in order to be considered a major repair and therefore, HEF eligible.**

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

In addition, the board 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 (9xxxxx) 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 project funds as well.

SFASU service departments may be paid from HEF accounts for capital expenditures only. A requisition and purchase order must be prepared and processed indicating the service department performing the work as the vendor and must follow the HEF guidelines stated in this policy.

Interdepartmental charges against HEF accounts **will not be processed without prior approval from the Executive Director of Finance and Administrative Services and the Office of Financial Reporting.** The state requires the processing of a purchase order and a purchase voucher through the State Comptroller's Office.

The Texas Education Code Chapter 62, Subchapter(b) states "Each governing board participating in the distribution of funds as described in this section may expend the funds without limitation, and as the governing board may decide in its sole discretion, for any and all purposes described in Section 17, Article VII, Texas Constitution, including to purchase or contract for cloud computing services or other intangible assets with an expected useful life or for a contract period of more than one year".

Advance payments are not allowed from HEF funds.

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

**HEF funds are on deposit in the State Treasury and must be expended from there. Consequently, HEF accounts cannot be used in conjunction with procurement cards.**

The Executive Director of Finance and Administrative Services with the Office of Financial Reporting are authorized to determine whether expenditures are in accordance with HEF restrictions and guidelines. Purchases which do not conform will require another source of funding.

### **FAQ regarding HEF**

**Q. Who is the contact for HEF purchasing questions?**

**A.** Contact either the Procurement or Controller office for guidance. All HEF purchases

must have the approval of the Procurement department.

**Q. Can a purchasing card be used for HEF expenditures?**

A. No. Departmental purchasing card purchases may not be made using HEF funds.

**Q. Who coordinates HEF purchasing?**

A. The SFASU Procurement department coordinates all HEF purchases.

**Q. Can HEF funds be used for either maintenance, minor repairs, or operating expenses?**

A. No. HEF funds cannot be used for any of these items. A major repair is defined as a substantial repair costing at least twenty-five percent (25%) of the replacement value of an asset.

**Q. Can HEF funds be used to purchase equipment and computer hardware maintenance agreements and extended warranties that are not purchased as part of the original acquisition?**

A. No. HEF funds cannot be used for these types of purchases, unless it is part of the initial purchase of the equipment and may include training to use the new equipment.

**Q. Can HEF funds be used to make advance or down payments?**

A. No. HEF funds cannot be used for advance payments. Exceptions to the payment guidelines are granted based on a strict set of State-listed criteria, so please contact your buyer to determine if your purchase would qualify for a prepayment.

**Q. Can non-HEF funds be used on an initial purchase and then reclassified to use HEF funds?**

A. No. A requisition and purchase order is required on all HEF purchases. Therefore, non-HEF expenditures cannot be reclassified to HEF funds.

**Q. Can I use other university funds initially so I can do an expedited/rush payment and then do a voucher correction later for HEF funds?**

A. No. HEF funds are also subject to State payment guidelines, which call for scheduling of payments 30 days from the latest of the following:

- The date the university received the goods
- The date the performance of the contract service was completed
- The date the university received an invoice.

If payment was processed outside of State payment guidelines, the purchase would not be eligible for HEF voucher correction.

**Q. Is there a purchase minimum when using HEF funds?**

**A.** Yes, purchases with HEF funds must have an individual unit cost of \$400 or more. The only exceptions to this are library books, library materials, cloud-based subscriptions, costs associated with construction projects, sound systems, digital cameras, desktop computers, laptop computers, drones, firearms, smartphones, tablets, televisions, and musical instruments.

**Q. What kind of improvements can be made using HEF funds?**

**A.** HEF funds can cover permanent asset improvement items such as 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.

**Q. Can HEF funds be used to purchase land?**

**A.** Yes. In fact, the cost of land can include the purchase price, the commissions, the fees for examining and recording the titles, the surveying, the drainage costs, the land-clearing costs, the demolition of existing improvements (less salvage), the landfilling, the grading, the interest on mortgages accrued at the date of purchase, the accrued and unpaid taxes at the date of purchase, and any other costs incurred in acquiring the land.