Section 03.02.01

GUIDELINES FOR HIGHER EDUCATION ASSISTANCE FUNDS (HEAF)

The Higher Education Assistance Fund (HEAF) was created as a counterpart to the Permanent University Fund by constitutional amendments (Article VII, Section 17) to the Texas Constitution in 1984 and 1993. Since September 1, 1985, these funds have provided assistance to most public universities that were outside the University of Texas and Texas A&M Systems for the following purposes:

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

Under the Texas constitution, an annual appropriation of funds to eligible institutions is determined for each 10-year period (beginning 1985) and is subject to interim review and revision at the end of five years.

DEFINITIONS

Higher Education Assistance Fund (HEAF) – Appropriations that became available in 1985 through Constitutional Amendment to fund permanent capital improvements for most public universities. This term may refer either to HEAF Treasury Funds (funds reimbursed from the State HEAF appropriation for university expenditures) or HEAF Bond Funds (monies received through the issuance of bonds and secured by HEAF Treasury Funds).

Tangible Assets – For the purposes of HEAF expenditures, assets are defined as having the following characteristics (a) are intended for use in current or future operations and not for the purpose of resale, (b) are relatively long lived, and (c) provide measurable future benefit to the entity. These characteristics are the foundation of the principle of determining the nature of an asset.

Educational and General Use (E&G) – Buildings and facilities essential to or commonly associated with teaching, research, or the preservation of knowledge.

Auxiliary (facility or enterprise) – Buildings and facilities including but not limited to student dormitories, student centers, student lounges and stadiums. Also, enterprises such as cafeterias, bookstores, intercollegiate athletics, and similar activities.

GENERAL PRINCIPLES GUIDING THE USE OF HEAF FUNDS

HEAF funds are state funds and in addition to the general restrictions associated with state appropriated funds are subject to special restrictions guiding their use. The Division of Finance and Administration shall be the final authority on the institutional use of HEAF funds for questions or issues not answered here.

For purposes of these guidelines, costs of acquiring, constructing, or improving tangible assets include all directly related reasonable and legitimate costs, including salaries (except library salaries) and other cost incurred to place the asset in use, and ready for productivity in the broad business sense. This principle is applicable whether performance is by university employees or by third parties.

These guidelines relate to acquiring, constructing, or improving tangible assets, and not to the appropriate levels of capitalizing those assets on the universities' financial records. *Capitalized costs* are expenditures that are recorded to an asset account or to accumulated depreciation. All tangible assets are not capitalized because, in practice, capitalization of expenditures is not based solely on whether the property acquired meets the definition of a tangible fixed asset. Practical considerations which take into account minimum level dollar limitations influence whether an asset is capitalized or considered to be a current expense

The governing board of each institution covered by Article VII, Section 17 is authorized to issue bonds to refund outstanding bonds or notes. Only bond proceeds issued under this section can be used to refund bonds issued under prior law.

Acceptable HEAF Expenditures and Restrictions

1. **Acquiring land with or without permanent improvements, the following definitions and guidelines apply:**

   A. **Land:** The surface or crust of the earth which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees.

   B. **The cost of land may include:**

      i. Purchase price.
      ii. Commissions.
      iii. Fees for examining and recording titles.
      iv. Surveying.
      v. Drainage costs.
      vi. Land clearing.
      vii. Demolition of existing improvements (less salvage).
      viii. Landfilling.
      ix. Grading.
      x. Interest on mortgages accrued at the date of purchase, accrued and unpaid taxes at the date of purchase, and
      xi. Other costs incurred in acquiring the land.

2. **Constructing and equipping buildings and other permanent improvements, the following definition and guidelines apply:**

   A. **Constructing and equipping**: The process of erecting buildings and of providing equipment that will assure that the buildings can be used for purposes intended, and the constructing and equipping of permanent improvements. This category includes additions to existing building and equipping of existing buildings. It does not include consumable supplies.

   B. **Buildings:** Roofed structures (conventional or underground structures) 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 which 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.

i. Examples of other permanent improvements: Can include such assets 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.

ii. While individual components of these permanent improvements may be moved, upgraded, or replaced from time to time, the systems themselves are not by design mobile. Therefore, systems which, in normal usage, could be moved from building to building or from room to room are not included as permanent improvements.

D. **Cost of buildings may include:**

i. The original contract price or cost of construction.
ii. Expenses for remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired.
iii. Payment of unpaid or accrued taxes on the building to the date of purchase.
iv. Cancellation or buy-out of existing leases.
v. Other costs related to placing the asset into operation.

E. **Construction costs of buildings and other permanent improvements can include the cost of**:

i. The completed project cost.
ii. Excavation, grading or filling of land for a specific building.
iii. Preparation of plans, specifications, blueprints, etc.
iv. Building permits.
v. Architects', engineers', and/or management fees for design and supervision.
vi. Legal fees.
vii. Temporary buildings used during construction.
viii. Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream.
ix. Drainage costs.
x. Land clearing.
xi. Demolition of existing improvements.
xii. Maintenance agreements purchased as part of the original acquisition (such as those software application programs and operation systems or for energy management systems)

F. **Equipping costs, fixed or movable, may include the cost of:**

i. Original contract or invoice of the furnishings or equipment.
ii. Freight-in, import duties, handling, and storage.
iii. Specific in-transit insurance charges.
iv. Sales, use, and other taxes imposed on the acquisition.

v. Site preparation.
vi. Testing and preparation for use.
vii. Reconditioning used items when purchased.
viii. Maintenance agreements purchased as part of the original acquisition.
ix. Development of software application programs and operating systems.

3. **Major repairs or rehabilitation of buildings or other improvements can include the following categories:**

   Repairs
   Renovations
   Replacements
   Improvements

   a. These improvements are normally expected to:
      i. Extend the useful life more than one year.
      ii. Improve operating efficiency.
      iii. Eliminate health and safety hazards.
      iv. Correct structural or mechanical defects.
      v. Upgrade the quality of existing facilities.
      vi. Convert these assets to more useful functions but are not considered routine maintenance.
   b. HEAF 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, and replacement of a part or component with a comparable part, minimal increase in life expectancy of an existing building. Qualifying HEAF projects must have a total cost of exceeding $5,000, the State's established floor for capital assets.

4. **Acquisition of capital equipment, library books and library materials, the following definitions & guidelines apply:**

   a. **Capital equipment:** Fixed or moveable tangible assets to be used for operations, the benefits of which extend over more than one fiscal year. These assets may be acquired through purchases 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; routine maintenance is not an allowable HEAF expenditure.

   b. **Equipment costs may include the cost of:**

      i. Original contract or invoice of the furnishings or equipment.
      ii. Freight-in, import duties, handling, and storage.
      iii. Specific in-transit insurance charges.
      iv. Sales, use, and other taxes imposed on the acquisition.
      v. Site preparation.
      vi. Installation charges.
      vii. Testing and preparation for use.
      viii. Reconditioning used items when purchased.
      ix. Maintenance agreements purchased as part of the original acquisition are appropriate.
      x. Development costs of computer software.

xi. Equipment parts may be purchased with HEAF funds if the parts materially extend or increase the useful life of an existing piece of equipment. HEAF 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 clearly identify the purchases HEAF allowable purchase category and refer to equipment by indicating the university's property inventory number, the equipment serial number, and the equipment's original purchase order number.

c. **Library:** a collection of books and/or materials in locations approved by university administration which are 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**: Information 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:

i. Journals.
ii. Periodicals.
iii. Microforms.
iv. Audio/visual media.
v. Computer-based information.
vi. Manuscripts.
vii. Maps.
viii. Documents.

f. **Cost of library books and library materials can include the cost of:**

i. Invoice price of books or library materials.
ii. Freight-in, handling, and insurance.
iii. Binding.
iv. Electronic access.
v. Reproduction and like costs required.
vi. Similar cost required to put these assets in place, excluding library salaries.

5. Refunding bonds or notes:

The governing board of each institution covered by Article VII, Section 17 is authorized to issue bonds to refund outstanding bonds or notes. Only bond proceeds issued under this section can be used to refund bonds issued under prior law.

6. HEAF Restrictions:

The following is a listing of HEAF restrictions. This list is not intended to be comprehensive but includes common restrictions.

i. Office Supplies cannot be paid using HEAF funds.
ii. Maintenance agreements and extended warranties not purchased as part of the original

acquisition cannot be paid using HEAF funds.

iii. Maintenance, minor repairs and operating expenses cannot be paid with HEAF funds.
iv. Property insurance cannot be paid with HEAF funds.
v. HEAF allocations are budgeted for a specific fiscal year.
vi. HEAF monies cannot be transferred to non-HEAF accounts and conversely, non-HEAF funds cannot be transferred into HEAF accounts.
vii. Deviations from which HEAF funding was originally budgeted require the prior approval of the Vice President of Finance and Administration.
viii. Systems which in normal usage could be moved from building to building or from room to room are not defined as permanent improvements.
ix. Appropriated HEAF funds cannot be used for the full cost of renovations, construction, and improvements for joint use activities, for example, an area used for both E&G and Auxiliary functions. HEAF funds may be used only for the proportional share of the E&G activity.
x. HEAF funds cannot be used for the purpose of constructing, equipping, repairing or rehabilitating buildings or other permanent improvements that are to be used for student housing, intercollegiate athletics, or auxiliary enterprises.
xi. Without the approval of the legislature, HEAF funds cannot use these funds for construction and equipping buildings and other improvements for a branch of campus or educational center that is not a separate degree-granting institution created by general law.
xii. Advanced payments are not allowed from HEAF funds.

7. HEAF Expenditures on Tangible Assets Upgrades:

The use of HEAF funds for the purchase of upgrades to existing tangible assets, which may or may not have been originally capitalized, is allowable providing <u>all</u> the following conditions are met:

- The upgrade cannot be a replacement part or repair.
- The upgrade must add new or additional functionality.
- The upgrade must have a useful life that exceeds one year.
- The upgrade must cost more than $250.00 per unit.

8. Allowable Object Codes:

Not all object codes can be used to make purchases from HEAF. Object codes allowed are 5630, all 5700 object codes with the exception of 5755 and all 8000 object codes.