**Higher Education Funds (HEF) UPPS No. 03.02.05**

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 **\*Co-Sr. Reviewers: Associate Vice President for Budget and Planning and Associate Vice President for Financial Services**

**POLICY STATEMENT**

*Texas State University is committed to* promoting proper financial stewardship of funds.

**01. SCOPE**

01.01 This policy establishes guidelines covering the allocation, management, budgeting, expenditures, and related restrictions of Higher Education Funds (HEF) appropriated to Texas State University. These guidelines apply to the use of HEF by all departments and units of the university.

**02. DEFINITIONS**

02.01 Capital Equipment – fixed or moveable, tangible assets to be used for operations, the benefits of which extend over more than one fiscal year (see Section 04.04 a. for specific guidelines related to HEF).

02.02 Consumable Supplies – a category of operating expenses for items that 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.

02.03 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](https://statutes.capitol.texas.gov/Docs/CN/htm/CN.7.htm).

02.04 HEF Treasury Funds – those HEF expended by the university, subject to state expenditure procedures and restrictions, and reimbursed from the state.

02.05 Higher Education Fund – permanent capital funding provided under [Article VII, Section 17, of the Texas Constitution](https://statutes.capitol.texas.gov/Docs/CN/htm/CN.7.htm) for Texas higher education institutions that are not participants in the Permanent University Fund (PUF) beginning September 1, 1985. These funds are general revenue funds that must reside in and be expended from the State Treasury.

02.06 Operating Expenses – costs incurred for services or items with a useful life of less than one year.

**03. PROCEDURES FOR THE USE OF HEF**

03.01 In accordance with [Article VII, Section 17(a) of the Texas Constitution](https://statutes.capitol.texas.gov/Docs/CN/htm/CN.7.htm), HEF are appropriated for the following purposes:

a. acquisition of land, either with or without permanent improvements;

b. construction and equipment 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 Section 04. for additional information).

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

a. student housing;

b. intercollegiate athletics; or

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 E&G portion of the building.

03.03 [Article VII](https://statutes.capitol.texas.gov/Docs/CN/htm/CN.7.htm) also provides that governing boards may issue bonds or notes and pledge HEF for up to 50 percent of money allocated to secure payment of the principal and interest on the bonds or notes.

**04. ACCEPTABLE HEF EXPENDITURES AND RESTRICTIONS**

04.01 Acquisition of Land With or Without Permanent Improvements

For the purposes of HEF expenditures, the following definitions and guidelines apply:

a. Land – the surface or crust of the earth that can be used to support structures and that may be used to grow crops, grass, shrubs, and trees.

b. Cost of land may include the following:

1) purchase price;

2) commissions;

3) fees for examining and recording titles;

4) surveying;

5) drainage costs;

6) land clearing;

7) demolition of existing improvements (less salvage);

8) landfilling;

9) grading;

10) interest on mortgages accrued at date of purchase; or

11) other costs incurred in acquiring the land.

c. Unless approved in advance by the legislature, an institution cannot use these funds to acquire land for a branch campus or educational center that is not a separate degree-granting institution created by general law.

04.02 Construction and equipment of buildings or other permanent improvements, for the purposes of these guidelines, are defined as follows:

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) housing 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 of Other Permanent Improvements – 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 included as permanent improvements.

d. Cost of buildings may include the following:

1) original contract price or cost of construction;

2) expenses for remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired;

3) payment of unpaid or accrued taxes on the building to the date of purchase;

4) cancellation or buy-out of existing leases; or

5) other costs related to placing the asset into operation.

e. Construction costs of buildings and other permanent improvements can include the costs of:

1) the completed project;

2) excavation, grading, or filing of land for a specific building;

3) preparation of plans, specifications, blueprints;

4) building permits;

5) architect, engineer, or management fees for design and supervision;

6) legal fees;

7) temporary buildings used during construction;

8) unanticipated costs such as rock blasting, piling, or relocation of channel of underground stream;

9) drainage costs;

10) land clearing;

11) demolition of existing improvements; or

12) 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 can include costs of:

1) original contract or invoice of the furnishings or equipment;

2) freight-in, import duties, handling, and storage;

3) specific in-transit insurance;

4) sales, use, and other taxes imposed on the acquisition;

5) site preparation;

6) installation;

7) testing and preparation for use;

8) reconditioning used items when purchased;

9) maintenance agreements purchased as part of the original acquisition; or

10) development of software application programs and operating systems. Hosted software, acquired as a service or subscription and installed elsewhere, may not be purchased with HEF.

g. Unless approved in advance by the 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.

04.03 Major repairs or rehabilitation of buildings or other improvements can include the following categories:

1. repairs;
2. renovations;
3. replacements; or
4. improvements

1) These improvements are normally expected to:

(a) extend the useful life more than one year;

(b) improve operating efficiency;

(c) eliminate health and safety hazards;

(d) correct structural or mechanical defects;

(e) upgrade the quality of existing facilities; and

(f) convert these assets to more useful functions.

2) 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 minimal increase in life expectancy of an existing building. Qualifying HEF projects must have a total cost exceeding $100,000 – the state’s established floor for capitalizing construction or renovation of assets.

04.04 Acquisition of capital equipment, library books, and library materials, for the purposes of HEF expenditures, include the following definitions and guidelines:

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 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 or repair is not an allowable HEF expenditure.

b. Equipment purchased may include costs of:

1) original contract or invoice of the furnishings or equipment;

2) freight-in, import duties, handling, and storage;

3) specific in-transit insurance;

4) sales, use, and other taxes imposed on the acquisition;

5) site preparation;

6) installation;

7) testing and preparation for use;

8) reconditioning used items when purchased;

9) maintenance agreements purchased as part of the original acquisition;

10)development costs of computer software (hosted software, acquired as a service or subscription and installed elsewhere, may not be purchased with HEF); or

11) 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 supporting documentation must clearly identify the purchase’s HEF allowable purchase category, identify the parent equipment, and explain how the parts materially extend or increase the useful life of the parent equipment.

c. HEF-appropriated funds may not be used as partial payment for the acquisition of capital equipment to be used for both E&G and auxiliary purposes that are independent of constructing and equipping buildings or other permanent improvements, major repairs and rehabilitations of buildings, or other improvements.

d. Library – for the purposes of these guidelines, a collection of books and materials in locations approved by university administration that are accessible to the general university community.

e. 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.

f. Library Materials – information sources, other than books (either owned or accessed), that provide information essential to the learning process, or that enhance the quality of university library programs, including:

1) journals;

2) periodicals;

3) microforms;

4) audiovisual media;

5) computer-based information;

6) manuscripts;

7) maps; and

8) documents.

g. Cost of library books and library materials can include the costs of:

1) invoice price of books or library materials;

2) freight-in, handling, and insurance;

3) binding;

4) electronic access;

5) reproduction and like costs; or

6) similar costs required to put these assets in place, excluding library salaries.

04.05 Refunding Bonds or Notes – The governing board of each institution covered by [Article VII, Section 17, of the Texas Constitution](https://statutes.capitol.texas.gov/Docs/CN/htm/CN.7.htm) 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.

04.06 Texas State service departments (such as Facilities and Technology Resources) will be paid from HEF accounts via interdepartmental transfers (IDT’s).

04.07 Advance payments are not allowed from HEF.

04.08 HEF may not be utilized for operating expenses or to purchase consumable supplies.

\*04.09 HEF cannot be used for moves or relocations. The associate vice president for Budget and Planning (AVPBP) maintains a designated funds account for moves associated with renovations.

04.10 HEF are on deposit in the State Treasury and must be expended from there. Consequently, procurement cards cannot be issued on HEF accounts.

04.11 Either the director of Procurement and Strategic Sourcing or the director of Accounting is authorized to determine whether an expenditure is in accordance with HEF restrictions and guidelines. Purchases that do not conform will require another source of funding.

**05. ALLOCATION PROCEDURES**

05.01 Under the [Texas Constitution](https://statutes.capitol.texas.gov/), an annual appropriation of funds to eligible institutions of higher education is determined for each 10-year period beginning in 1985 and is subject to review and revision at the end of each five-year period.

05.02 Annual Texas State 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.

\*05.03 On an annual basis, several months prior to the beginning of the fiscal year, the AVPBP will recommend to the provost and vice president for Academic Affairs and the vice president for Finance and Support Services (VPFSS) a cash flow statement for specific allocations for construction of new buildings, demolition, and land acquisition; major repairs and renovations; research and teaching equipment; library books and eligible materials; and information technology equipment. These internal allocations will be determined in conjunction with discussions with key academic and administrative officials and groups, as well as the incorporation of the approved construction schedule in the most current University Master Plan. The VPFSS will present the recommended cash flow to the president for approval. All new requests for HEF money, not included in the cash flow statement, must be approved by the president.

05.04 When construction projects exceed available funds, consideration by the president may be given to the issuance of HEF bonds.

\*05.05 Upon the president’s approval, the AVPBP will prepare the HEF table for submittal to the Budget Office. This table will show HEF expenditures for the coming fiscal year.

\*05.06 After September 1 of each year, the AVPBP will initiate the creation and funding of HEF accounts based upon the purposes for which the funds were allocated and notify the authorized signatories.

\*05.07 In December of each year, the cash flow statement will be reconciled to the Annual Financial Report by the AVPBP.

05.08 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 president to other university projects.

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

**\*06. REVIEWERS OF THIS UPPS**

 06.01 Reviewers of this UPPS include:

Position Date

Associate Vice President for April 1 E5Y

Budget and Planning

Associate Vice President for April 1 E5Y

Financial Services

**\*07. CERTIFICATION STATEMENT**

This UPPS has been approved by the following individuals in their official capacities and represents Texas State policy and procedure from the date of this document until superseded.

Associate Vice President for Budget and Planning; co-senior reviewer of this UPPS

Associate Vice President for Financial Services; co-senior reviewer of this UPPS

Vice President for Finance and Support Services

President