Sam Houston State University
A Member of The Texas State University System

Finance & Operations Procurement and Business Services Policy FO-PUR-17
Purchases with Higher Education Assistance Funds (HEAF)

Article VII, Section 17 of the Texas Constitution established the Higher Education Assistance Fund. These funds are General Revenue funds that must reside in and must be expended from the State Treasury.

HEAF Treasury Funds: Those HEAF funds expended by the University, subject to state expenditure procedures and restrictions, and reimbursed from the state.

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

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

Consumable Supplies is 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.

Capital equipment is fixed or moveable tangible assets to be used for operations, the benefits of which extend over more than one fiscal year.

The Higher Education Assistance Fund was established for the purpose of:

- Acquiring land, either with or without permanent improvements
- Constructing and equipping buildings and other permanent improvements
- Repairing (major) or rehabilitating buildings or other permanent improvements
- Acquiring capital equipment, library books, and library materials
- Payment of principal and interest on bonds issued under this authority

  Vernon's Ann.Texas Const. Art. 7, § 17(e)

  "…and may pledge up to 50 percent of the money allocated to such governing board pursuant to this section to secure the payment of the principal and interest of such bonds or notes. Proceeds from the issuance of bonds or notes under this subsection shall be maintained in a local depository selected by the governing board issuing the 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."

HEAF Funds are to be used only for Education and General (E&G) purposes.

HEAF Funds cannot be used for:

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

Please note if a building has both Auxiliary and Education & General Funds the University can use HEAF Funds proportionally with the E&G Funds.

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

<u>Acceptable HEAF Expenditures and Restrictions</u>:

Acquisition of land with or without permanent improvements: For the purposes of HEAF expenditures, 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:

   1. Purchase price
   2. Commissions
   3. Fees for examining and recording titles
   4. Surveying
   5. Drainage cost
   6. Land clearing
   7. Demolition of existing improvements (less salvage)
   8. Land filling
   9. Grading
   10. Interest on mortgages accrued at date of purchase
   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.

Construction and equipping 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:

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 is 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;
5. Other costs related to placing the asset into operation.

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

1. The completed project;
2. Excavation, grading, or filing of land for a specific building;
3. Preparation of plans, specifications, blueprints, etc.;
4. Building permits;
5. Architects', engineers', 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;
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 cost 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 of software application programs and operating systems.

g. Unless approved in advance by the Legislature, institutions cannot use these funds for construction 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 improvements can include the following categories:

Repairs
Renovations
Replacements
Improvements

a. These improvements are normally expected to:

1. Extend the useful life in excess of one year.
2. Improve operating efficiency.
3. Eliminate health and safety hazards.
4. Correct structural or mechanical defects.

5. Upgrade the quality of existing facilities.
6. Convert these assets to more useful functions.

b. HEAF funds may be used to purchase hardware and building supplies for use on “major” construction or renovation projects. This does <u>not</u> 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 exceeding $5,000, the state’s established floor for capital assets.

Acquisition of capital equipment, library books, and library materials, for the purposes of HEAF expenditures, including the following definitions and guidelines:

a. Equipment: Assets obtained with HEAF funds shall have a unit value of $250 or more and a useful life of a minimum of one (1) year. No exceptions will be made to this policy to assure compliance with Higher Education Assistance Funds. These assets may be purchased from an outside vendor or constructed & developed by University employees. Computer software, operating systems, application programs and annual licensing fees (for computer software) may be purchased with HEAF funds provided they meet the above criteria.

b. Equipment costs can include cost 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. Consumable supplies required for start up of capital equipment when purchased with the original equipment.
11. Development costs of computer software.
12. 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 purchase’s HEAF allowable purchase category, and refer to parent equipment by indicating the Sam Houston State inventory number, the equipment serial number, and the parent equipment’s original purchase order number.

Examples

Furniture - cost $5000 or more and has a life of more than one year can be paid with HEAF and coded 737300 as a capital asset

Furniture - cost less than $5000 but has a life of more than one year can be paid with HEAF but coded 733400 since it is a tangible asset but not a capital asset

Software - cost $100,000 or more and has a life of more than one year can be paid with HEAF and coded 739500 as a capital asset

Software - cost less than $100,000 but has a life of more than one year can be paid with HEAF but coded 738000 since it is a tangible asset but not a capital asset

Computer - cost $5,000 or more and has a life of more than one year can be paid with HEAF and coded 737900 as a capital asset

Computer - cost less than $5000 but has a life of more than one year can be paid with HEAF but coded 737800 since it is a tangible asset but not a capital asset

Components - cost any amount can be paid with HEAF only if being used to fabricate computer equipment which will meet the definition of a capital asset or tangible asset (code 738800) or which will increase the unit value or useful life of an existing asset by 25%

c. Library: For the purposes of these guidelines, a collection of books and materials in locations approved by University 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: 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, either electronic or hard copy form, including:

1. Journals
2. Periodicals
3. Microforms
4. Audiovisual media
5. Computer-based information
6. Manuscripts
7. Maps
8. Documents

f. 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
6. Similar costs required to put these assets in place, excluding library salaries

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

Sam Houston State service departments (such as Facilities, Telephone Services, and Information Technology) may be paid from HEAF accounts for capital expenditures only. A requisition and purchase order must be prepared and processed in BearKatBuy showing the Sam Houston State University department performing the work as the vendor and must follow the HEAF guidelines stated in this policy.

Interdepartmental charges against HEAF accounts will not be processed. The state requires the processing of a purchase order and a voucher through the State Comptroller's Office.

Advance payments are not allowed from HEAF funds.

HEAF funds may not be utilized for operating expenses.

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

Reviewed by:	Tessy Rappé, AVP Finance & Operations Reneé Starns, Exec. Director Procurement & Business Services
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