



**FISCAL
REGULATIONS
and
PROCEDURES**

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Department: Business Office

Subject: Higher Education Assistance Funds (HEAF)

I. General Principles Governing Use of HEAF

1. In accordance with Article VII, Section 17(a) of the Texas Constitution, Higher Education Assistance Funds (HEAF) are appropriated for the following purposes:
 - Acquisition of land, either 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 library materials
2. Article VII also provides that governing boards may issue bonds or notes and pledge up to 50 percent of money allocated to secure payment of the principal and interest on the bonds or notes. The proceeds of the bonds or notes may be used for any of the purposes listed in item 1.
3. Institutions may not use HEAF for construction, equipping, repairing, or rehabilitating buildings or permanent improvements used exclusively for:
 - Student housing
 - Intercollegiate athletics
 - Auxiliary enterprises

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


4. **As a general principle, HEAF is to be used for acquiring, constructing, or improving tangible assets.**

For the purposes of HEAF expenditures, tangible assets are defined as assets that have all the following characteristics:

- Are intended for use in current or future operations and not for the purpose of resale
- Are used for operations, the benefits of which extend over more than one fiscal year
- Have physical substance
- Provide measurable future benefit to the entity

Uses of HEAF are based upon the state definition of a “tangible asset,” rather than a capital asset. A tangible asset may or may not be capitalized, or it may be partially capitalized.

For the purposes of these guidelines, costs of acquiring, constructing, or improving tangible assets include all directly related reasonable and legitimate costs.

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II. Specific Provisions

1. 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:
 - Purchase price
 - Commissions
 - Fees for examining and recording titles
 - Surveying
 - Drainage costs
 - Land clearing
 - Demolition of existing improvements (less salvage)
 - Landfilling
 - Grading
 - Interest on mortgages accrued at date of purchase
 - 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.
2. 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 which 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.
 - 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.



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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:
- 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 relating to placing the asset into operation
- e. Construction costs of buildings and other permanent improvements can include the costs of:
- The completed project
 - Excavation, grading, or filling of land for a specific building
 - Preparation of plans, specifications, blueprints, etc.
 - Building permits
 - Architects', engineers', and/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)



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- f. Equipping costs can include costs of:
- 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
3. Major repairs or rehabilitation of buildings or other improvements can include, but is not limited to, the following categories:
- Repairs
 - Renovations
 - Replacements
 - Betterments
- a. These improvements are normally expected to:
- Extend the useful life
 - 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. Routine maintenance is not a HEAF-eligible improvement.
- c. Cost of major repairs or rehabilitation of buildings or other improvements includes those items identified in item 2 above.
4. Acquisition of capital equipment, library books, and library materials, for the purposes of HEAF 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

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considered capital equipment under this definition; routine maintenance is not allowable.

- b. Equipment costs can include costs of:
- 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
 - Developing computer software and information systems
 - Acquiring computer software and information systems
- c. Library: For the purposes of these guidelines, a collection of books and/or materials in locations approved by university administration that 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:
- Journals
 - Periodicals
 - Microforms
 - Audiovisual media
 - Computer-based information
 - Manuscripts
 - Maps
 - Documents
- f. Cost of library books and library materials can include the costs of:
- Invoice price of books or library materials
 - Freight-in, handling, and insurance



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- Binding
 - Electronic access
 - Reproduction and like costs
 - Similar costs 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.