

UNIVERSITY *of* HOUSTON
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Funding and Budgets
AREA: Expenditure Management

Number: 11.02.01

SUBJECT: Higher Education Assistance Funds

I. PURPOSE AND SCOPE

With the repeal of the Ad Valorem Tax, state colleges and universities needed new resources for construction, improvements, major repair and rehabilitation, and the acquisition of capital equipment. As a result, an amendment to the Texas Constitution was passed providing an annual appropriation to be allocated for these purposes to state colleges and universities that are not participants in the permanent university fund. That appropriation is referred to as the Higher Education Assistance Fund, or HEAF.

This document provides comprehensive guidelines covering the internal allocation, management, budget, spending, and oversight of HEAF funds appropriated to the University of Houston and related restrictions on these funds. This document is in compliance with Article VII, Section 17 of the Texas Constitution, Chapter 62 of the Texas Education Code, and other relevant statutes and institutional policies. These guidelines apply to the use of HEAF funds by all departments and units of the university.

II. DEFINITIONS

- A. Certify: To approve an expenditure by signing the expenditure document. Such certification ensures that:
- The expenditure is made for the purpose for which funds were budgeted;
 - The procurement process was followed and that the documents are prepared in accordance with all state, federal, UH System, and university guidelines; and
 - The funds required are available.
- B. Certifying signatory: The university business manager who has been authorized to approve (i.e. certify) expenditures for a department project, college, or division, and whose signature must appear on any expenditure document initiated by that unit (MAPP 05.02.01).
- C. Higher Education Assistance Fund (HEAF): Permanent capital funding appropriation provided under Article VII, Section 17 of the Texas Constitution for Texas institutions of higher education beginning September 1, 1985. This term may refer to “HEAF treasury funds” or to “HEAF bond funds.”
- D. 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.
- E. HEAF treasury funds: Those funds expended by the university and reimbursed from the state HEAF appropriation.
- F. Plant Funds: Funds budgeted at UH in ledger 7 for renewal and replacement of institutional properties, for long-lived assets (other than endowments), and for debt service and retirement of institutional plant indebtedness.

- G. Project administrator: That individual with day-to-day responsibilities for the departmental processing of expenditure and budget documents against the HEAF allocation, management of the FRS accounts, ensuring that funds are expended within HEAF restrictions, and working closely with the Office of Budget Administration and Analysis staff to ensure that funds are expended in a timely and appropriate manner. This individual may also be the certifying signator.
- H. Tangible assets: For the purposes of HEAF expenditures, assets that are intended for use in current or future operations and not for the purpose of resale; are relatively long lived; have physical substance; and provide measurable future benefit to the entity.
- I. University program administrator: That individual with responsibility for the university program to which HEAF funds may be allocated.

Additional definitions of relevant terms related to HEAF guidelines and state restrictions may be found in Addendum A.

III. POLICY STATEMENT

Funds appropriated to UH from HEAF shall be allocated, managed, monitored, and reported to achieve optimum usage and accountability within the purposes for which these funds are appropriated. Detailed expenditure restrictions are outlined in Addendum A. As a general principle, HEAF monies are to be used for acquiring, constructing, or improving tangible assets. HEAF may be used 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 library materials.

IV. POLICY PROVISIONS

- A. HEAF allocations must be expended within the guidelines outlined in Addendum A.
- B. All HEAF funds, for the purposes of procurement, are subject to the institutional procurement guidelines and restrictions for local funds, as prescribed in MAPPs 04.01.01 (Procurement Options - Outside Vendors) and 04.01.02 (Procurement - General).
- C. HEAF treasury funds, however, are subject to state expenditure procedures and restrictions. Expenditures are, therefore, requested on state vouchers and made through the State Comptroller on state warrants.
- HEAF bond funds are subject to local expenditure procedures and restrictions.
- D. Advance payments are not allowed from HEAF funds.
- E. HEAF 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 to other critical university projects.
- F. HEAF funds must be maintained in segregated HEAF accounts and may not be transferred to non-HEAF accounts. Non-HEAF funds may not be transferred into or intermixed with HEAF funds.

- G. In limited circumstances, expenditures may be transferred between HEAF accounts and other fund accounts. The expenditures being transferred must meet the restrictions of both fund groups and be approved by the Office of the Associate Vice Chancellor/Associate Vice President for Finance's State Accounting Department.
- H. The proceeds from the sale of university equipment are credited to the appropriation or fund source from which the equipment was purchased.

When a piece of equipment purchased with HEAF funds is sold for an amount that exceeds \$500, the Office of Budget Administration and Analysis will reallocate the proceeds amount to the research or academic program administrator to whom the funds were originally allocated; i.e., the Vice President for Research, the Vice President for Information Technology, or the heads of university libraries.

The program administrator will then reallocate according to program guidelines. Proceeds from sales of equipment purchased from any other UH HEAF allocation will revert to the Vice President for Administration and Finance. Proceeds of less than \$500 from the sale of an item will be returned to a central account to cover administrative costs of property management sales.

V. ALLOCATION

- A. Under the Texas Constitution, an annual appropriation of funds to eligible institutions of higher education is determined for each 10-year period beginning with 1985 (and subject to review and revision at the end of each five years). Annual UH HEAF 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.
- B. UH executive management, working with executive management of other UH component universities, negotiates how appropriated funds will be used across the UH System and whether funds will be loaned between campuses and/or bonds will be issued. Certain major construction, land acquisition, or major repair and rehabilitation allocations may also be specified.
- C. On an annual basis, several months prior to the beginning of the fiscal year, UH executive management will determine specific allocations for academic equipment and renovation projects and equipment cost-sharing; for library books and eligible materials; for information technology equipment; and for other equipment, renovation, and construction needs as determined appropriate. These internal allocations will be determined in conjunction with discussions with key academic and administrative officials and groups.
- D. The Office of the Vice President for Administration and Finance will notify the appropriate university officers of the annual allocations.
- E. Within each approved university program, the program administrators will establish internal processes for allocation and management of the funds under their responsibility. The Office of Budget Administration and Analysis staff will work with each program area to develop and observe such individualized guidelines as may be needed for that area. Any general variances from the one-year expenditure framework should be identified and approved by the Vice President for Administration and Finance.

VI. PROJECT ACCOUNT ESTABLISHMENT

- A. Project accounts will be defined to provide for clear identification and management of the project within the FRS system.

- B. All HEAF and plant accounts and budget transfers will be processed by the Office of Budget Administration and Analysis staff.
- C. All HEAF account names will normally reflect the year of the allocation. The remainder of the title should be descriptive of the project.
- D. All HEAF-funded construction, land acquisition, demolition, and repair/renovation accounts will be set up as plant accounts, in ledger 7. Each account will have a separate general ledger as consistent with university accounting practices.
- E. HEAF equipment and library accounts will usually be set up in ledger 1.
- F. A Plant or HEAF Funds Project Account Request form (Addendum B) will be prepared for each project account requested and signed by authorized signatories over the account. User-furnished attributes will be supplemented with FRS reporting attributes; the Office of Budget Administration and Analysis staff will create the account and notify the project administrator when complete.
- G. Prior to the beginning of each fiscal year, the Office of Budget Administration and Analysis staff will initiate the creation and funding of major project and general unallocated HEAF accounts, based upon the purposes for which the funds were allocated.
- H. Additional specific project accounts may be created and funds transferred into those accounts from unallocated accounts, based upon the purposes for which the funds were allocated.
- I. Any significant deviation from the purposes for which the funds were allocated will require the approval of the Vice President for Administration and Finance.

VII. PROJECT EXPENDITURES AND MANAGEMENT

- A. Depending upon the structure of the responsible department, the program administrator and/or the project administrator will review and approve expenditure documents against HEAF accounts, ensuring that expenditures are made in accordance with HEAF guidelines (Addendum A) and other tenets of this document.
- B. To provide assistance to the processing departments, the project administrator shall ensure that all purchase requisitions, purchase vouchers, and other expenditure documents processed against HEAF funds clearly indicate "HEAF" on the face of the document.
- C. The project administrators shall ensure that all account creation, budget, and expenditure documents reflect those approval signatures required by their program area, in addition to a certifying signature.
- D. Accounts shall be reviewed regularly (at least monthly) by the project administrators ensuring that invoices are paid, necessary corrections made, and encumbrances released in a timely manner.
- E. The program administrator must ensure that accounts maintain positive balances, that funds are expended within the time frame and purposes for which the project is scheduled, and that balances are cleared when the project is complete.

VIII. PROJECT MONITORING

- A. The Office of Budget Administration and Analysis staff prepares monthly reports of all HEAF accounts. Specific accounts may be monitored on a more regular basis.

- B. On a quarterly basis, summary reports are submitted to the Vice President for Administration and Finance, along with information regarding any variances.
- C. Depending upon the recommendation of the Vice President for Administration and Finance, HEAF allocations not managed in accordance with the timeline, purpose, and guidelines for which budgeted may be subject to reallocation.

IX. SALE OF EQUIPMENT PURCHASED WITH HEAF

- A. The disposal of and accounting for university surplus is delegated to the UH System Department of Property Management; that office must be contacted prior to any sale.
- B. Funds received from a properly authorized sale of university equipment that was purchased from HEAF funds shall be deposited into an account specified by the Manager of State Accounting in the Office of the Associate Vice Chancellor/Associate Vice President for Finance, in accordance with standard cash handling procedures. The account number(s) and source(s) of funds from which the equipment was purchased shall be indicated on the General Cash Receipt. The business administrator shall consult with the UH System Property Management Department and/or the UHS Manager of State Accounting for direction.
- C. As soon as the proceeds from the sale of an item of equipment exceeding \$500 are deposited, the UHS Manager of State Accounting will contact the UH Office of Budget Administration and Analysis for directions regarding institutional reallocation.
- D. When the equipment sold was purchased from HEAF funds allocated for research, academic, or information technology programs, the funds will be reallocated to the program administrator to whom they were originally allocated--the Vice President for Research, the Vice President for Information Technology, or the heads of university libraries.

Proceeds from sales of equipment purchased from any other UH HEAF allocation will revert to the Vice President for Administration and Finance.
- E. The funds will be transferred into a program account set up for that purpose and identified as "HEAF Prior Year Equipment Sales." The funds may then be reallocated according to program guidelines. The Vice President for Research will reallocate the funds to the department to whom the equipment allocation was originally made.

X. RESPONSIBILITIES

- A. Executive management: Annual UH HEAF allocations are determined through a state allocation formula based upon the institutional space deficit, the condition of facilities, institutional complexity, and set-asides for health science units and compliance with the Texas Desegregation Plan. In addition, they are subject to negotiations among executive management at UHS component universities.

Internal allocations for university programs are made by UH executive management. Generally, these allocations are made for research and teaching equipment and renovations; information technology equipment; library books and materials; construction of new buildings, demolition, and land acquisition; and major repairs and renovations.

- B. Program administrator: Funds internally allocated to a program become the responsibility of the program administrators--the heads of research, university libraries, Information Technology, Plant and Operations, Facilities Planning and Construction, etc.

Additionally, the head of Facilities, Planning, and Construction has the responsibility of identifying and monitoring capital project schedules, distributing regular reports on the status of capital project accounts in FRS, communicating with the project administrators regarding the progress of capital projects, and reporting to executive management on HEAF capital projects and accounts.

- C. Project administrator: Program funds are allocated to projects within the definition of the program. The project administrator, working closely with the program administrator, is responsible for the day-to-day management of the account within the HEAF restrictions and for providing regular information on its management and status to the Program Administrator.
- D. The Office of Budget Administration and Analysis: This office is responsible for approving and establishing HEAF accounts and for establishing and modifying the project budgets. Other responsibilities of this office include distributing regular reports on the status of accounts in FRS, communicating with the project administrator regarding status of accounts in FRS, and regular reporting to executive management on HEAF projects/accounts.

XI. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice President for Finance

Review: Every four years, on or before September 1

XII. APPROVAL

Randy J. Harris
 Vice President for Administration and Finance

Arthur K. Smith
 President

Date of President's Approval: 03/20/00

XIII. REFERENCES

Article II, Section 17 of the Texas Constitution
Chapter 62 of the Texas Education Code

Index Terms: Capital funds
 HEAF
 Higher Education Assistance Funds
 Plant funds

Addendum A

Guidelines for Expenditure for Higher Education Assistance Funds

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 relatively long lived
- 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.

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For the purposes of these guidelines, costs of acquiring, constructing, or improving tangible assets include all directly related reasonable and legitimate costs. These costs may include salaries (except library salaries) and other costs 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.

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. Permanency is relative and should be interpreted in terms of the periods of usefulness. Only land can be considered permanent in any absolute sense.

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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)
- 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
- 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.

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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 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
 - Development costs of computer software
 - 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.

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- 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
 - 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.

Addendum B

**University of Houston
Office of Budget Administration and Analysis
Plant or HEAF Funds - Project Account Request**

Account Number: _____

Please furnish the information below and return to the Office of Budget Administration and Analysis (BUO 2165, 5th floor, E. Cullen (extension 3-0650)). The information furnished will be used to set up the account, fund the project, and monitor the project throughout the project period.

Date of request: _____

1. Project/account name: _____
 _____ (Short Title - 20 characters)
 _____ (Complete, long title)
2. Brief description of project/purpose of account: _____

3. Anticipated start-up date: _____ Completion date: _____
4. Source of funds: HEAF: _____ Other (specify): _____
 If departmentally allocated: Account number of source: _____ (Attach Budget Transfer)
 If centrally allocated: Approved annual HEAF allocation? _____ Other: _____
 Initial estimated project cost or annual program allocation: _____
5. Individual to be contacted regarding status of this project:
 Project Administrator: _____ Telephone: _____
 College/department: _____ Mail code: _____
6. Account signatures (sign and print):
 Primary signature _____ USERID: _____
 Secondary signature _____ USERID: _____
 Tertiary signature _____ USERID: _____
 Certifying signature _____ USERID: _____
7. Executive/division code: _____ College code: _____ Department/distribution code: _____
Research/teaching only:
 Recipient department code: _____ FY award authorized: _____ Purpose of award: _____
8. Funding level approved/allocated: _____
9. Account approved, created by Office of Budget Administration and Analysis Name: _____ Date: _____
10. Acknowledgement copy returned to Project Administrator _____ Date: _____