

THE UNIVERSITY OF TEXAS SYSTEM

PERMANENT UNIVERSITY FUND (PUF) BOND PROCEEDS FOR LIBRARY, EQUIPMENT, REPAIR AND REHABILITATION (LERR) AND FACULTY SCIENCE AND TECHNOLOGY ACQUISITION AND RETENTION (STARS) AND SIMILAR FUNDED PROGRAMS BUDGET RULES AND PROCEDURES

For Fiscal Year Ending August 31, 2027

A. INITIAL BUDGET

1. The Chancellor is authorized to approve allocations of LERR and Faculty STARS to institutions within the program totals authorized by the U.T. System Board of Regents if specific allocations are not adopted when the Initial Budget is adopted.
2. Upon recommendation by the Executive Vice Chancellors for Academic, Health, and Business Affairs, the Chancellor may approve initial Library and Equipment or Repair and Rehabilitation projects if not specifically approved by the U.T. System Board of Regents when the Initial Budget is adopted.
3. U.T. System institutions are authorized to purchase approved Library and Equipment items and to contract for Repair and Rehabilitation projects following standard purchasing and contracting procedures. This includes expenditures for STARS (including Faculty and Rising STARS), or similar funded programs.
4. Transfers by the U.T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements.
5. Final approval of specific Repair and Rehabilitation projects will be in accordance with U.T. System Board of Regents established procedures for construction projects.
6. All expenditures are subject to the provisions of the Texas *Constitution* of the State of Texas, the U.T. System Board of Regents' *Rules and Regulations* for the governance of the U.T. System, and U.T. System Policies (UTS Policies).
7. All expenditures are subject to the guidance established by the U.T. System Board of Regents in the *Permanent University Fund (PUF) Bond Proceeds for Library, Equipment, Repair and Rehabilitation (LERR) and Faculty Science and Technology Acquisition and Retention (STARS) and Similar Funded Programs Expenditure Guidelines*.

B. BUDGET AMENDMENTS

Items requiring approval of U.T. System Administration (no Consent Agenda approval required)

1. Substitute Library or Equipment purchases that are not on the approved list.
2. Substitute Repair and Rehabilitation projects that are not on the approved list.
3. Transfers of appropriated funds between approved Library, Equipment, Repair and Rehabilitation items.

C. RETENTION OF RECORDS

The Internal Revenue Service requires that invoice documentation supporting capital expenditures, including LERR, STARs and similar programs funded with proceeds of tax-exempt bonds, be maintained for a period ending three (3) years after the complete extinguishment of the bonds. Pursuant to the Texas *Constitution*, PUF bonds may be structured with a maximum maturity of 30 years. In order to comply with the IRS requirement and *UTS 181 Policy for Post Bond Issuance Federal Tax Compliance*, U.T. institutions shall maintain invoice documentation for 35 years for any capital expenditure funded with tax-exempt proceeds.

D. OTHER CONSIDERATIONS

1. All LERR appropriations must be expended within 36 months from the date of the award, or the appropriation will lapse and be made available for future Systemwide reallocation.
2. All STARs or similar program appropriations must be expended within 24 months from the time the retained faculty member accepts the award, or the new faculty member arrives at the institution, or the appropriation will lapse and be made available for future Systemwide reallocation.
3. U.T. System institutions receiving block STARs allocations have 24 months from the beginning of the fiscal year in which funds are allocated to award the funds to a specific faculty member, or the appropriation will lapse and be made available for future Systemwide reallocation.
4. Notwithstanding the limitations adopted at the time LERR, STARs, or other similar funding was authorized, these *Budget Rules and Procedures* apply to all previously authorized LERR, STARs and similar funding with the exception of D.2 and D.3 which are effective only for FY 2027 and future years.
5. In accordance with the *UTS 168 Capital Expenditure Policy*, LERR and STARs funding that is incorporated into a Major Project will be defined as PUF and will be subject to rules applicable to all Major Projects. Regents' Rule 80301 defines Major Projects.

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For Fiscal Year Ending August 31, 2027

A. AUTHORIZATION OF PUF BOND PROCEEDS FOR LERR, STARs, OR SIMILARLY FUNDED PROGRAMS

Article VII, Section 18 (b) of the Texas *Constitution* authorizes the U.T. System Board of Regents to issue bonds and notes secured by the U.T. System's interest in the Permanent University Fund for the purpose of:

- acquiring land, with or without permanent improvements,
- constructing and equipping buildings or other permanent improvements,
- major repair and rehabilitation of buildings and other permanent improvements,
- acquiring capital equipment, and
- acquiring library books and library materials.

It is for the last three purposes noted above that the U.T. System Board of Regents has established LERR, STARs (including Faculty and Rising STARs), and similarly funded programs.

B. ELIGIBILITY FOR PROGRAM FUNDS

Eligibility for LERR, STARs, or other similar funded programs is the same as eligibility for PUF bond proceeds as set forth in the Texas *Constitution*.

C. GENERAL GUIDELINES FOR USE OF PROGRAM FUNDS

In addition to meeting the constitutional requirements outlined above, the general guideline to determine whether an item is eligible for LERR, STARs, or similar funded programs, is that it must have a useful life of at least one year. The following sections are provided to assist with that determination. These guidelines are not intended to be exhaustive and any questions regarding LERR, STARs, or similar funded program eligibility should be directed to the U.T. System Administration Office of the Chief Financial Officer.

Repair and Rehabilitation of Buildings or Other Permanent Improvements

Major repairs or rehabilitation of buildings or other permanent improvements include, but are not limited to, repairs, renovations, replacements, or betterments that 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, or convert these assets to more useful functions, but that are not considered routine maintenance.

The cost of major repairs or rehabilitation of buildings or other improvements can include the contract price or cost of construction and other costs that would be applicable to make the building or improvement suitable for its intended use.

Acquisition of Capital Equipment

Capital equipment is regarded as nonexpendable, tangible personal property having a useful life of more than one year. The acquisition cost for equipment includes the net invoice price, including any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. In addition, taxes, duty, in-transit insurance, freight, and installation charges are also included as part of the acquisition cost. Capital equipment, including software which will be used Systemwide, or between and among U.T. institutions and System Administration, is eligible for LERR, STARs, or similar program funds.

Warranties and Similar Service Features

The cost of warranties and similar service features related to purchase of capital equipment (such as maintenance agreements and loaner programs) are not eligible for LERR, STARs, or similar program funds as these are considered operating expenses. This ineligibility also applies to warranty and similar service feature costs separately identified during original purchase. For example, a warranty agreement charge that is separately identified on a laptop purchase is not allowed.

Software

Any capitalized costs associated with the development or implementation of software, including personnel costs (salaries), are eligible for LERR, STARs, or similar funded programs if they are incurred in the Application Development Stage as defined by *Statement No. 51 of the Governmental Accounting Standards Board* "Accounting and Financial Reporting for Intangible Assets." This principle applies whether the salaries are paid to employees of the institution or to outside parties. Training costs related to software usage are discussed below.

The purchase of bundled software included as part of the initial acquisition of computer hardware is capitalizable regardless of threshold and therefore eligible for LERR, STARs, or similar program funds.

Software maintenance costs are considered operating expenses and therefore are not eligible for LERR, STARs, or similar program funds as these are considered operating expenses.

Costs for software licenses with a useful life extending beyond one year that will be owned are eligible for LERR, STARs, or similar program funds. Leased or licensed software that requires the payment of an annual fee (i.e., does not have a useful life extending beyond one year) and that will not be owned when the license expires is not eligible for LERR, STARs, or similar program funds.

Employee Training and Travel Costs

Employee training and travel costs are not eligible for LERR or STARs program funds as these are considered operating expenses.

Operating Expenses

Consumables, which include those items that have an expected useful life of less than one year, are not eligible for LERR or STARs program funds as these are considered operating expenses. Some examples include, but are not limited to chemicals, gases, paper, staplers and other office supplies, toner cartridges, medical supplies, disposal services, and laboratory supplies.

Examples of other operating expenses that are not eligible for LERR or STARs program funds include, but are not limited to: monthly telephone services, animals, software maintenance cost, and routine maintenance.

Acquisition of Library Books and Library Materials

The acquisition of library books and library materials is eligible for LERR. A library book is defined as a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library materials are information sources other than books, including journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items that provide information essential to the learning process or enhance the quality of university library programs. The purchase of a license for library materials is allowable if the license period is in excess of one year. Annual license subscriptions and payments are not eligible for LERR.

The acquisition cost of library books and library materials can include the invoice price, freight-in, handling and insurance, binding, electronic access charges, reproduction, and other like costs required to put these assets in place, except for library salaries.

Prohibition for Student Housing, Athletics, and Auxiliary Enterprises

Article VII, Section 18 (d) of the Texas *Constitution* prohibits the use of PUF bond proceeds, and therefore the use of LERR, STARs, and similar program funds, for student housing, intercollegiate athletics, or auxiliary enterprises.

D. SPECIAL PROGRAM FUNDING

Allocations of STARS funding by the Board of Regents are for the Faculty STARS program. With appropriate approvals those funds can be redirected to the Rising STARS program. U.T. System institutions receiving block STARS allocations can elect to use them as either Faculty STARS or Rising STARS without further approval being required.

Faculty STARS Program

The Faculty STARS program funded by PUF bond proceeds supports the recruitment and retention of the best-qualified faculty at both academic and health institutions by providing additional resources to build and enhance research infrastructure. Because the Faculty STARS program is funded in the same manner as LERR, the same guidelines apply, and each item must have a useful life of more than one year. Faculty STARS funds are available for laboratory renovation and equipment purchases; however, faculty and other staff salaries cannot be paid from Faculty STARS funds.

There are three related program goals that form the basis of the Faculty STARS program:

- recruit senior faculty with national prominence; and
- improve the quality of new faculty and research capacity of the institutions by augmenting the start-up packages for tenure and tenure-track faculty; and
- retain high quality faculty who have had offers from another research institution or have the potential to leave because of limited access to quality equipment or laboratories.

Rising STARS Program

The Rising STARS program makes up to \$300,000 available for recruitment of promising faculty members who are recruited in a tenure track position at any academic level, i.e., assistant, associate, or full professor. Rising STARS funding is limited to the same equipment and renovation expenditure restrictions as Faculty STARS.