
Overview

The Ohio Revised Code and each capital bill and capital re-appropriation bill (the most recent being H.B. 562 and H.B. 462, respectively) set forth the allowable uses of capital funds. Capital appropriations for buildings or structures, including remodeling and renovations, are limited to:

- Acquisition of real property or interests in real property.
- Buildings and structures, which includes construction, demolition, complete heating, lighting and lighting fixtures, and all necessary utilities, ventilating, plumbing, sprinkling, and sewer systems.
- Architectural, engineering, and professional services expenses directly related to the project.
- Machinery related to the operation or functioning of the building or structure at the time of its initial acquisition or construction.

The State must own the property on which the capital facility will be located. In certain situations such as projects involving higher education institutions and county mental retardation and developmental disability boards, the ownership requirement may be waived if:

- (1) The State or higher education institution either owns the property or has a long-term lease (at least 15 years for state agencies and 20 years for higher education institutions), or other interest (such as an easement) in the property;
- (2) The Board of Regents on behalf of a higher education institution certifies to the Controlling Board that undue delay will occur if planning does not proceed while the property or property interest acquisition process continues. In this case, capital funds may be released upon approval by the Controlling Board to pay for planning through the development of schematic drawings only; or
- (3) If the capital facilities will be owned or be part of facilities owned by a separate nonprofit organization or public body and made available to a higher education institution or state agency for its use, the nonprofit organization or public body either owns or has a long-term lease (at least 15 years in the case of state agencies and 20 years for higher education institutions) of the real property or other capital facility to be improved, renovated, constructed or acquired and has entered into a joint/cooperative use agreement with the state agency or higher education institution that meets the statutory requirements for joint/cooperative use agreements.

Joint/Cooperative Use Agreements -- the Board of Regents has adopted rules (see OAC 3333-1-03(E)) regarding the release of capital moneys for joint or cooperative use projects. The related agreements, among other matters, must:

- Specify the extent and nature of the institution's use over a term of at least 20 years for higher education institutions and at least 15 years for state agencies, with the value of that use or right to use to be reasonably related to the amount of the State capital appropriation.
 - Provide for pro rata reimbursement to the State should the arrangement for joint or cooperative use be terminated early.
 - Provide that procedures to be followed during the capital improvement process will comply with applicable state laws and rules, including capital bill provisions.
 - Provide for payment or reimbursement to the higher education institution (not to exceed 1.5% of the appropriation) of its administrative costs incurred as a direct result of the project. The institution should document those reimbursed amounts by component.
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Maintenance/Repairs versus Renovations

- Maintenance and repairs, including maintenance contracts, are not eligible to be paid from capital funds and, thus, must be covered by operating funds.
- Maintenance includes the routine recurring activity that must be undertaken to maintain the operation, functionality, appearance or safety of a building or structure. Repairs are shorter-term, maintenance related projects. Examples of repairs include: replacing a portion of the plumbing system, installing new vents, replacing sections of flooring or ceiling tiles, and glass replacement.
- Renovations are more extensive enhancements, renovations, or replacements of buildings or structures or systems and are an appropriate use of capital funds. Examples include renovations of classrooms or other space into computer or research laboratories.

Leases, Lease-Purchase, and Installment Purchases

- Leases and lease-purchases of vehicles or equipment are not allowable capital expenditures.
- Installment purchases while not strictly prohibited are generally not approved as allowable capital expenditures.

Allowable Equipment and Furnishings

To be financed with capital funds, expenditures for equipment or furnishings that are part of a broader project or facility must meet **all** of the following criteria:

- Essential in bringing the facility up to its intended use and necessary for the facility to function. The equipment or furnishing must be an integral part of or directly related to the basic purpose or function of the facility.
- Have a unit cost of at least \$100.
- Have a useful life of at least five years.
- Used primarily in the rooms or areas covered by the financed project.

Allowable equipment and furnishings would include computers and computer peripherals, workstations, lab and research equipment, desks, chairs, file cabinets, carpeting/flooring, blinds, and curtains provided that they satisfy all of the above criteria. An appropriation item specifically for equipment is allowable provided the equipment meets the above unit cost and useful life provisions.

Non-Allowable Equipment and Furnishings

- Not integral to the broader project or the facility's intended use.
- Motor vehicles of any kind (e.g., cars, trucks, modified vehicles).
- General supplies and low-cost equipment (unit cost of less than \$100).

In most cases, equipment or furnishings being purchased as part of a regular maintenance, upgrade or replacement effort is not appropriate for capital funding. Consumable supplies and low-cost equipment such as adding machines, calculators, phones, common tools, paper stock, staplers, tape dispensers, etc. are not eligible uses of capital funds.

INFORMATION TECHNOLOGY (IT) SYSTEM PROJECTS

Capital funds may be used to support the acquisition, development, deployment or integration (including project management) of information technology systems that constitute or are an integral part of approved capital projects. Capital funds may not be used to support the ongoing operation and maintenance of such projects.

ALLOWABLE

Hardware

Capital funds may be used to purchase computers (including personal computers) and related peripherals such as servers, mainframes, printers, scanners, fax machines, etc.

Software

- Software development and design (akin to facility design and engineering).
- Purchases of packaged “off-the-shelf” software are allowable if they have an expected useful life of at least five years and meet one of the following criteria:
 - ✓ Related to the initial deployment of an agency or university-wide system or other major project deployment (periodic upgrades must be purchased with operating funds); or
 - ✓ When necessary to bring a newly constructed facility or an allowable piece of equipment up to its intended use (e.g. a computer lab).
- Software licenses with a term of at least five years.
- Purchase of perpetual licenses enabling the acquisition of shared electronic resources and databases.

Personnel Expenses

Capital funds may be used to support personnel costs related to the initial development and deployment of an information technology project. Employees splitting time between the new information technology project and other work or only temporarily assigned to the IT project should continue to be funded out of operating funds.

NON-ALLOWABLE

Training and Maintenance

Expenses related to training of personnel on the new IT system or any of its components is generally not an allowable capital expenditure. Additionally, operating, not capital, funds must be used to support the ongoing maintenance and operation of IT systems or other regular, recurring expenses.

Software

Capital funds generally may not be used to purchase standard off-the-shelf software (such as MS Office software, adobe, and web browsers) or any software package with individual license costs under \$500. Additionally, capital funds may not be used to purchase software upgrades.

Personnel Expenses

Capital funds may be used to cover only those labor expenses directly related to the initial development and deployment of a capital project. They may not be used to fund ongoing maintenance and operational expenses of a project once it is developed. In the case of colleges and universities, capital funds may not be used to cover tuition reimbursement or graduate assistantships.

Follow-Up Questions Regarding Proposed Expenditures

- Questions regarding the capital funding eligibility of proposed expenditures should be directed to the agency's operating and capital analysts at the Office of Budget and Management.
- Institutions of higher education should consult with the capital planning Director of the Ohio Board of Regents.