

**FISCAL POLICIES GOVERNING
FEDERAL AND STATE PARTICIPATION
IN COST OF SPACE FOR
COUNTY DEPARTMENT OF SOCIAL
SERVICES FACILITIES**



A HANDBOOK FOR COUNTY MANAGEMENT

NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF SOCIAL SERVICES
July 1, 2008

FISCAL POLICIES GOVERNING FEDERAL AND STATE PARTICIPATION IN COST OF SPACE FOR COUNTY DEPARTMENT OF SOCIAL SERVICES FACILITIES

I. GENERAL

It is the responsibility of each county (or contract provider) to secure and maintain the adequate housing to efficiently meet particular needs of its Department of Social Services (or other provider agency) in the administration of the social services programs. Toward that end, costs incurred in providing such space will generally be allowable and eligible for state and federal financial participation.

Claims may be made for cost incurred in:

1. **paying rent and attendant service and maintenance costs** in privately owned buildings
2. **providing service and maintenance for buildings owned by the county** (or provider agency).
3. **making repairs or alterations to buildings owned by the county** (or provider agency)
4. **providing adequate and necessary parking areas for facilities owned by the county** (or provider agency)

Such reporting must be for actual costs incurred in providing a benefit to the social services programs, and must be reasonable and necessary for proper and efficient administration of those programs. In addition, such reporting must be net of all applicable credits, and may not be included as a cost of other federally funded programs in either the current or a prior period.

The Division of Social Services does not currently engage in the approval of cost-of-space agreements, nor does it require claimants to secure three letters of comparable rent. Nevertheless, counties are reminded of the federal requirement that the total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. Effective July 1, 1984 the State's method of implementing this requirement is as follows: (a) for publicly owned buildings, reimbursement is limited to no more than the actual cost; (b) for rented or leased space, either competitive procurement is required *or* justification for a sole source is required.

1. Rent and/or Service and Maintenance in Leased/Rented Buildings (from private owners or other public agencies)

A copy of the signed lease agreement executed in accordance with N.C. General Statute 159 must be kept on file. Unless specifically authorized to do so by the County Board of Commissioners, DSS directors may not sign leases for facilities.

Costs are allowable if documented *and* if the following procurement procedures are followed:

If the expenditure of funds during the lease period (or for one year, whichever is longer) exceeds \$90,000, *formal bidding* procedures must be followed (advertising, receiving of sealed bids, etc.). A new lease *or* a renewal would both require formal bidding if the lease/rental cost exceeds \$90,000.

If the amount of the rental/lease is from \$30,000 to \$90,000, an informal bidding process is required (quotations from vendors on price and availability may be solicited by phone, letter or similar methods).

2. Service and Maintenance Costs in County Owned Buildings (or Provider Agency Owned Buildings)

Financial participation is available for service and maintenance costs that are necessary to maintain space suitable for continuous occupancy by the local department. **Examples might include the costs associated with utilities, insurance, security, janitorial service, elevator service, painting, decorating, upkeep of grounds, normal maintenance repairs, and depreciation.** A county may claim FFP for DSS occupied space only; no claim may be made for the cost of idle, excess, or unoccupied space, except with prior written approval of the grantor federal agency. In addition, **actual expenditures for interest incurred for the financing of buildings is allowable for buildings newly occupied on or after October 1, 1980.**

Reporting for service and maintenance may be on the basis of actual current expenditures, or they may be on the basis of a "fixed" amount which is derived from the actual certified (audited) expenditures of the previous fiscal year.

When reportings are based on the *fixed amount* method, the necessity of adjusting reportings to actual cost is avoided because the county is, in effect, reporting actual costs one year in arrears.

Financial participation is available in the cost of maintenance, repairs, and alterations of space occupied by county departments of social services and provider agencies. Such costs must be necessary for the maintenance of proper facilities used for the administration of the social services programs. **Routine maintenance repairs may be reported in full at the time expenditures are made, but major renovations and/or alterations must be reported on the basis of depreciation or use allowance.**

1. Principles

The following principles will govern financial participation in the costs of maintenance repairs and alterations:

a. **Expenditures should be necessary and beneficial** to the successful operation of the county or provider agency program.

b. **Where space is shared with other agencies, the cost** of repairs or alterations benefiting all agencies **must be allocated** on the basis of a reasonable pro rata share; that is, **on the basis of the amount of space occupied by the county or provider agency in relation to the total building space.** Where repairs and alterations benefit only one agency, these costs (whether direct expense or depreciation) will be charged to that agency. The county DSS should retain documentation to support their method of prorating shared building expenses.

c. **The county DSS must retain documentation of depreciation schedules, which must be based on the straight line method.** The county must retain documentation of the original cost of the building and the cost of any renovations to the building.

The "standard useful life" of a masonry and steel building is assumed to be 45 years or IRS guidelines. The county DSS must document their method of determining the useful life of a building if the "standard useful life" is not used. **Also the standard useful life of mobile homes is ten years.**

2. Distinction between Maintenance Repairs and Major Renovations/Alterations

The distinction between maintenance repairs and (major) renovations and alterations usually depends on whether the expenditure is for routine "up-keep" of the building or for extensive repairs or alterations involving substantial structural changes or replacements.

a. Maintenance Repairs

Repairs of this type are generally minor in nature and do not involve structural changes or alterations in buildings. **Examples of minor maintenance repairs include patching of a roof, painting and decorating, repairing plaster, repairing doors and locks, minor or routine repairs to elevators, plumbing, or electrical equipment, and repair of equipment parts.** Maintenance repair items should not be capitalized and depreciated. These items should be reported as expenses for the month in which they are paid.

b. Major Renovations and Alterations

These repairs usually involve substantial alterations and/or structural changes in buildings. **Examples of major renovations and alterations include the following: replacement of a whole roof, construction of fixed or permanent partitions, the cost and installation of heating, plumbing, air conditioning, and electrical systems.** All items classified as major renovations or alterations should be capitalized and depreciated over the anticipated life of the item or the remaining life of the building.

1. The costs of providing parking facilities necessary for the efficient administration of the social services program will be subject to Federal financial participation.

2. The provision of parking facilities for the use of the staff of a county department of social services, and for persons who may need to visit the offices on official business, is an important means of facilitating the administration of the public assistance programs. Since home investigations of applicants and recipients of public assistance are generally necessary in the determination of eligibility, it is usual that such investigations are made by field workers using a car. In view of the location of many county social services departments (in business districts where streets in the vicinity of the offices are congested) and of the widespread practice of metering street space in urban localities, it becomes increasingly important for field workers as well as other agency staff to have ready access to convenient parking space. For the same reasons, some provision for off-street parking is frequently necessary for the public that may need to visit the social services office on official business.

3. Financial participation is available in the cost of providing parking facilities under the policies applicable to all other joint administrative costs. Participation in such expenses would include the costs of providing parking facilities which are of benefit to both the staff of the social services and contract provider agencies, and to persons who may need to visit the office of the social services department on official business. *Parking facilities (for the purpose of financial participation) include the rental, construction, or purchase of garages and parking lots, excluding the cost of land. For purchase and construction of a parking facility, the amount claimed must be limited to annual depreciation or use allowance that is calculated using an actual cost basis.* However, if expenditures for parking facilities are incurred in connection with the purchase or construction of office space, they will be considered as costs of occupancy of the building for purposes of Federal financial participation under the principles governing the costs of office space.

4. If garage or parking lot space is to be used jointly by one or more other agencies, **the cost must be allocated** on the basis of the extent of use by each agency or the proportion of the total space allotted for use by the department of social services.

Fees for street parking or fees paid for individual parking space are not considered administrative expense and therefore are not covered for participation.

The occupancy of a building under a rental-purchase or a lease with option to purchase agreement is allowable only with prior approval of the federal grantor agency. The county would need to submit their plan to the Division for review and forwarding to the federal office for approval. No financial participation is available for these agreements prior to the receipt of written approval from the federal grantor.

Also under rental-purchase or a lease with option to purchase agreement, reimbursement is limited to the amount allowable if the building had been purchased outright.

II. ACQUISITION METHODS – COUNTY OWNED BUILDINGS

1. DIRECT PURCHASE

The county purchases the building using capital reserve funds or fund balance. The total purchase price (exclusive of the cost of land) is capitalized and reported through the use of a 45-year depreciation schedule. Standard useful life of a masonry and steel building is considered to 45 years. Your architect and the Local Government Commission can assist in determining the depreciation schedule.

2. BONDED INDEBTEDNESS PURCHASE

With approval of the North Carolina Local government Commission and after a successful bond referendum for this purpose, the county issues bonds sufficient to purchase the building. The total purchase price (excluding the cost of land) is capitalized and reported for participation using a 45-year depreciation schedule. In addition, actual expenditures for interest incurred for the financing of a building newly occupied after October 1 1980, is allowable as a current expense.

3. INSTALLMENT PURCHASE (Most Common)

Purchase contracts for five years or more and \$500,000 or more are allowable only with the approval of the North Carolina Local Government Commission to assure compliance with G.S. 160A-20. The county negotiates a financing contract with a financial agency and buys a building. Depreciation and interest paid are allowable.

4. LEASE PURCHASE

The occupancy of a building under a rental-purchase or a lease with option to purchase agreement is allowable only with prior approval of the federal grantor agency. The county would need to submit its plan to the Division for review and forwarding to the federal office for approval. No financial participation is allowable for these agreements prior to the receipt of written approval from the federal grantor.

III. INCLUSION IN INDIRECT COST PLANS

Counties now have the options of including all or a part of their cost of space in a county-wide central supporting services cost allocation plan. Cost of space normally is made up of such costs as utilities, security and janitorial services, building maintenance costs and depreciation (or use allowances), and such costs as are usually incidental to rental and lease agreements. The cost of any one of these items can be directly charged to the appropriate "user" departments, or it can be incorporated into a central supporting service "cost pool" and allocated on some equitable basis (such as net usable square feet), also to the appropriate "user" departments. Regardless of the option selected, counties must comply with the applicable regulations governing cost of space:

1. Costs may not be claimed for buildings that have been or would be considered to be fully depreciated.
2. **No part of the cost of land may be claimed.**
3. No claim may be made for any portion of the cost of buildings or equipment previously donated or otherwise borne directly or indirectly by the federal government.

If a private organization donates a building to the county without restrictions, an annual use allocation (not to exceed 2%) may be claimed on the portion of the building occupied by the DSS. The use allowance must be based on the fair market value of the donated structure.

4. **No claim may be made for the cost of idle, excess, or unoccupied space, except with the prior written approval of the grantor federal agency.**

III. DETERMINATION OF COST RECOVERY

DSS operates by using a cost allocation method. The percentage of reimbursement is based on services provided by staff with each program reimbursing at its own unique participation rate. This will vary from month to month depending on services provided in a particular month. The participation rate also varies among counties because of spending in excess of allocations and the amounts expended on county only programs. Federal participation varies by program from a maximum of 100% of the TANF administration cost (Capped allocation) to a minimum of 0% for county only programs when allocations have been spent

Example illustrating the estimated Federal/State participation of a newly constructed building based on an average of 61.65% which could be modified based on the availability of Federal/State funds. Depreciation limit is 2.22% per the IRS Table of Class Lives and Recovery Periods.

Construction and Financing Cost	\$3,000,000
Depreciation (45 year life) $\$3,000,000 \times 2.22\%$	\$ 66,600
Federal/State Participation each year $\$66,600 \times 61.65\%$	\$ 41,059
Federal/State Participation 45 years X \$41,059	\$1,847,655

TOTAL COST	\$3,000,000
FEDERAL/STATE PARTICIPATION	<u>\$1,847,655</u>
COUNTY COST	\$1,152,345

ADDITIONAL GUIDANCE AT A GLANCE

1. Depreciation begins when building is occupied using the cost at that point for basis for depreciation. As additional costs are incurred, the county may add these costs to the depreciation schedule and recalculate the monthly amount based on the new costs and the remaining life of the building.
2. DSS may only claim the portion of the monthly depreciation that relates to the space they occupy. Example: Building is 24,000 square feet and DSS occupies 12,000 square feet. DSS may only claim 50% of the depreciation costs for the month they occupy this percentage. A monthly depreciation charge must not exceed the cost of similar rental space in the area.
3. Interest payments may be claimed when paid to the extent that they apply to the portion of the building that the DSS occupies (as above).
4. Architect's fees may be included in the cost of the building.
5. No part of the cost of land may be claimed.
6. No claim may be made for the cost of idle, excess, or unoccupied space, except with the written approval of the federal grantor agency.
7. Counties have the option to include all of their cost of space in a county-wide central supporting services cost allocation plan (Indirect Cost Plan prepared by Maximus)
8. Formal bidding procedures must be followed (advertising, receiving of sealed bids, etc.).
9. Local Government Commission can assist with financing and bidding issues.
10. Plans must be submitted to the North Carolina Division of Social Services (County Operation Liaisons, COL) for approval before bids are obtained and construction begins.