Real Property and Leases

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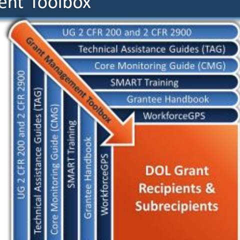
Grant Management Toolbox



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Grant Management Toolbox References

- SMART Training — SMART
- Core Monitoring Guide — CMG
- Technical Assistance Guides — TAG
- ETA Grantee Handbook — Grantee Handbook
- WorkforceGPS Resources — GPS

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Module Overview

- ✓ Key Terms and Definitions
- ✓ Types of Real Properties
- ✓ Leases
- ✓ Property Management

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Key Terms and Definitions

- ✓ Identify key terms and definitions related to real property
- ✓ Discuss allowability of costs for real property and capital improvements to such property

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Capital Assets

2 CFR 200.12

- **Capital assets means** tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP.
  - Land, buildings (facilities), and
  - Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life

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Capital Expenditures

Requires Prior Approval from Grant Officer 2 CFR 200.13

- Expenditures to acquire capital assets or to make additions, improvements or modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets (materially increase their value or useful life)
- When approved as a direct charge:
  - Capital expenditures will be charged in the period in which the expenditure is incurred
- For buildings and land
- For improvements to land or buildings that materially increase their value or useful life
- Normally not allowed
  - Seek out advice from FPO or PTE
  - If allowed, obtain prior approval from Grant Officer

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Facilities

2 CFR 200.446(a)(1)

- **Facilities** means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether **owned or leased** by the non-Federal entity

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Real Property

2 CFR 200.85

- ✓ **Real Property** means land, including land improvements, structures (buildings) and appurtenances thereto

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Capital Improvements

2 CFR 200.439(a)(3)

- ✓ **Capital improvements** are improvements that materially increase value or useful life to real property

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Real Property – Prior Approval

- ✓ Real property
  - ► Construction, major renovations, and acquisitions are not allowable costs to most ETA grants.
  - ► Exceptions
    - › When explicitly authorized by program statutes and regulations such as
      - YouthBuild
      - Migrant Seasonal and Farmworkers Program
      - National Dislocated Worker Grants for disaster relief
  - ► Follow ETA's prior approval process.

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Types of Real Property

- Describe allowable costs for non-Federal entity-owned properties
- Discuss special conditions and provisions related to property with Federal or Reed Act equity
- Discuss various lease types and allowable costs for rented properties

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Types of Real Property

- Non-Federal entity-owned
- State-owned with Federal equity
- Reed Act properties
- Leased properties

PROPERTY TYPE

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Non-Federal Entity Owned

- Recovery of property costs is through **depreciation**
- The amount of compensation for the use of the property is determined by computing depreciation for the accounting period based upon the pattern of use
- Allocation for depreciation must be made in accordance with 2 CFR part 200 Appendices IV through VIII

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Depreciation - Definition

2 CFR 200.436(a)

Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use.

- ✓ The non-Federal entity may be compensated for the use of its buildings and capital improvements provided that they are used and needed in the non-Federal entity's activities, and properly allocated to Federal awards.
- ✓ Such compensation must be made by computing **depreciation**.

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Depreciation – No Use Allowance

2 CFR 200.436(d)(4)

- ✓ No depreciation may be allowed on any assets that have outlived their useful lives.
  - ► Use allowance is no longer allowed
  - ► May charge repair and maintenance cost
- ✓ May charge depreciation on capital improvements if not fully depreciated

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Depreciation Costs

- ✓ Depreciation is computed based on acquisition costs and useful life of the property
- ✓ Acquisition costs excludes:
  - ► Land cost
- ✓ Useful life period must take into consideration
  - ► Type of construction
  - ► Historical data
  - ► Entities' property renewal and replacement policies

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Depreciation – Calculation

- Must use straight line depreciation
  - Absent clear evidence indicating property's consumption is greater earlier than later in its useful life
  - Changes in depreciation methods requires prior approval

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Depreciation – Two Methods

Two options for building depreciation described at 2 CFR [200.436(d)(3)](200.436(d)(3)):

- Treated as a single asset; depreciated over single useful life
- Divided into multiple components; each component depreciated over its estimated useful life

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Knowledge Check 1 – Questions

True or False?

1. Capital improvement projects are allowable as direct charges to the Federal programs as long as they are approved by the director of the organization and they are properly justified.
2. After a building has been fully depreciated, a grantee may begin charging a 2% use allowance for the property.
3. Grantees may charge depreciation on capital improvements that are not fully depreciated.
4. Capital expenditures must be capitalized in accordance with Generally Accepted Accounting Principles (GAAP).
5. If an entity owns a facility and uses it for program purposes, the entity can charge market rent to the Federal grant for use of the facility.

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Knowledge Check 1 – Answers

1. Capital improvement projects are allowable as direct charges to the Federal programs as long as they are approved by the director of the organization and they are properly justified. **False**
2. After a building has been fully depreciated, a grantee may begin charging a 2% use allowance for the property. **False**
3. Grantees may charge depreciation on capital improvements that are not fully depreciated. **True**
4. Capital expenditures must be capitalized in accordance with Generally Accepted Accounting Principles (GAAP). **True**
5. If an entity owns a facility and uses it for program purposes, the entity can charge market rent to the Federal grant for use of the facility. **False**

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Property With Federal/Reed Act Equity

20 CFR 683.240

Instructions for using real property with Federal/ Reed Act equity

- ✓ Unemployment Insurance/Wagner-Peyser funded real property
- ✓ Workforce Investment Act/Job Training Partnership Act property
- ✓ State Reed Act property

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Unemployment Insurance / Wagner-Peyser Equity

20 CFR 683.240(a)

- ✓ Transfer of equity
  - Equity transferred to the States that used the grants to acquire the equity
- ✓ Use
  - Carry out activities authorized under WIOA, title III of the Social Security Act (Unemployment Compensation program), or the Wagner-Peyser Act.
- ✓ Disposition
  - Requires disposition instructions from the Grant Officer
  - Portion of proceeds attributable to transferred Federal equity **must** be used to carry out activities authorized under WIOA, title III of the Social Security Act, or Wagner-Peyser Act

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WIOA / Job Training Partnership Act Equity

20 CFR 683.240(c)

- Transfer of equity
  - Real property purchased with WIA funds or was transferred from JTPA to WIA is transferred to the WIOA title I programs.
  - Property must be used for WIOA purposes.
- Disposition
  - Non-Federal entity must seek instructions from the Grant Officer or State (in the case of a subrecipient) prior to disposition or sale.

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State Reed Act Property

20 CFR 683.240(b)

- Use
  - May be used for the one-stop service delivery system to the extent that the proportionate share of Reed Act equity is less than or equal to the proportionate share of occupancy by the Unemployment Compensation and Wagner-Peyser Act programs in such properties
- Disposition
  - State must request disposition instructions from the Grant Officer
  - The portion of the proceeds attributable to the Reed Act equity must be returned to the State's account in the Unemployment Trust Fund and used in accordance with DOL-issued guidance

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Leases

- Describe difference between capital and operating leases
- Describe limitations on "sale and lease back" and "less-than-arms-length" agreements
- Discuss the unallowability of home offices

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General Parameters for Leases

2 CFR 200.465

- Rental costs under leases are allowable
  - To the extent reasonable
  - With certain limitations
- Rental arrangements should be reviewed periodically

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Reasonableness Factors

- Rental costs of comparable property, if any
- Market conditions in the area
- Alternatives available
- Type, life expectancy, condition, and value of the property leased

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Limitations

- Sale and lease-back
  - A non-Federal entity sells a property it owns and enters into a lease agreement to rent the property back from the new owner.
- Less-than-arms-length
  - One party is able to control or substantially influence the actions of the other
  - Examples include:
    - Divisions of the non-Federal entity
    - The non-Federal entity under common control through common officers, directors, or members

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Limitations on Allowable Costs

- Under both “sale and lease back” arrangements and “less than arm’s length” leases allowable amount would not exceed the amount for
  - Depreciation
  - Maintenance
  - Taxes
  - Insurance

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What is a Capital Lease?

- Usually a non-cancellable lease for a fixed term with an option to buy
- Lessors’ services are limited to financing the asset
- Lessee pays all other costs—title remains with the lessor
- Lessee
  - Cost to ETA programs is limited to depreciation and third- party financing costs or limit interest to least expensive alternative

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What is an Operating Lease?

- Lessor (or owner) transfers only the right to use the property to the lessee
- Lessee returns the property to the lessor at the end of the lease period
- Lease does not have ownership over the property
- Lease generally provides for early termination fees
- Lessee treats the lease expense as an expense to the grant

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Termination Clauses

- ✓ Leases should have termination clause
- ✓ Unexpired lease costs are generally allowable where reasonably necessary for award performance, less residual value, if:
  - ► Amount claimed does not exceed reasonable use value for the award and further reasonable period
  - ► All efforts were made to terminate, assign, settle, or otherwise reduce the lease costs

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Restriction on Home Office

2 CFR 200.465(c)(6)

Home office workspace

- ✓ The rental of any property owned by any individuals or entities affiliated with the non-Federal entity for purposes such as home office workspace, is UNALLOWABLE.

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Documentation

- ✓ Lease or rental agreements for space used for Federal programs
- ✓ Procurement process followed to ensure that rental or lease rates are fair and reasonable for the space
- ✓ Floor plan or other allocation method used to determine amount of costs charged to Federal programs and the cost by program

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Knowledge Check 2 – Questions

True or False?

1. A capital lease is the most common form of lease and is used by most organizations to rent space.
2. When a grant is terminated early, rental costs under unexpired leases may be allowable charges to the Federal award.
3. If a building is sold and then leased back for program occupancy, I can charge market rate for using it for ETA grant activities.

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Knowledge Check 2 – Answers

1. A capital lease is the most common form of lease and is used by most organizations to rent space. **False**
2. When a grant is terminated early, rental costs under unexpired leases may be allowable charges to the Federal award. **True**
3. If a building is sold and then leased back for program occupancy, I can charge market rate for using it for ETA grant activities. **False**

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Property Management

- ✓ Maintenance or repair costs vs. capital improvements
- ✓ Insurance coverage
- ✓ Idle facilities/capacity costs
- ✓ Interest costs
- ✓ Donated property
- ✓ Documentation issues
- ✓ Common mistakes

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Maintenance and Repair Costs – Definition

2 CFR 200.452

- Costs incurred for,
  - Utilities
  - Insurance
  - Security
  - Necessary maintenance
  - Janitorial services
  - Repair, *or*
  - Upkeep of buildings
- Neither add to the permanent value of the property nor appreciably prolong its intended life
  - No prior approval necessary

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Maintenance and Repair Costs – Allowable

Allowable

- Only allowable to the extent not paid through rental or other agreements
- Allocate based on cost allocation plan

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Insurance Coverage

2 CFR 200.310

Insurance coverage

- The non-Federal entity must provide insurance for property acquired or improved with Federal funds equivalent to insurance coverage it provides for its own property.

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Capital Improvements

- ✓ Add to the permanent value of the buildings or appreciably prolong their intended life.
- ✓ Must be treated as capital expenditures.
- ✓ Costs are recovered
  - ► Through depreciation charges, or
  - ► As direct charge to period incurred where prior approved by DOL

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Rearrangements/Reconversion Costs

2 CFR 200.462(a)

- ✓ Ordinary and normal rearrangement and alteration costs are allowable as indirect costs.
- ✓ Special arrangements/alterations incurred specifically for a Federal award are allowable as direct cost with PRIOR WRITTEN APPROVAL.

2 CFR 200.462(b)

- ✓ Costs for restoration or rehabilitation of facilities after use by ETA programs, less normal wear and tear, are allowable

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Idle Facilities and Idle Capacity

2 CFR 200.446 Idle Facilities and Idle Capacity

- ✓ Idle Facilities – completely unused facilities
  - ► Excess to current needs
  - ► Unallowable with exceptions
- ✓ Idle Capacity – unused capacity of partially used facilities
  - ► Difference between 100 percent usage and actual usage

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Cost of Idle Facilities

✓ Costs of idle facilities and idle capacity
- Maintenance,
- Repair,
- Housing,
- Rent, and
- Other related costs, e.g.,
  - Insurance,
  - Interest, and
  - Depreciation

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Cost of Idle Facilities (cont.)

2 CFR 200.446(b)

✓ Costs are unallowable except when
- They are necessary to meet fluctuations in workload
- Although not necessary to meet fluctuations in workload, they were necessary when acquired
  - Idle because of changes in program requirements and other reasons
  - Under reasonable exceptions stated in this requirement, costs are allowable for a reasonable period
    - Up to one year depending on initiative to use, lease, or dispose of such facilities

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Cost of Idle Capacity

2 CFR 200.446(c)

✓ Normal cost of doing business
- Allowable with provisions
  - Capacity is reasonably anticipated to be necessary to carry out the purpose of the Federal award or
  - Capacity was originally reasonable
    - Not subject to other reduction or elimination of other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices
    - Widespread idle capacity (may be idle facility)

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Interest Expense

2 CFR 200.449(a)

- Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are UNALLOWABLE.
- Financing costs (including interest) to acquire, construct, or replace assets are allowable, under very limited circumstances; except ETA does not allow acquisition or construction of buildings

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Donated Real Property

- Donated real property must be valued
  - Value
    - Determined by independent appraiser;
    - Certified by DOL official
  - Value established based on the fair market value at the time of the donation
  - Basis excludes land value
- Value recovered through depreciation
  - May be charged as cost to Federal award, or
  - Claimed as matching,
  - But not both

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Donated Space

- Value must not exceed fair rental value of
  - Comparable space and facilities
  - In a privately-owned building
  - In the same locality
- Value established by independent appraiser.
- The valuation of the donated space must be assessed again each subsequent year.

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Knowledge Check 3 – Questions

True or False?

1. The cost of idle facilities is an allowable cost to Federal awards except under limited circumstances.
2. Insurance, security, maintenance, janitorial services, repairs, etc., are allowable maintenance and repair costs.
3. The value of donated property can be directly charged to both the grant and as matching share.

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Knowledge Check 3 – Answers

1. The cost of idle facilities is an unallowable cost to Federal awards except under limited circumstances. **True**
2. Insurance, security, maintenance, janitorial services, repair, etc., are allowable maintenance and repair costs. **True**
3. The value of donated property can be directly charged to both the grant and as matching share. **False**

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Common Mistakes

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Common Mistakes

- Missing or unreasonable termination clauses
- Inadequate documentation to support ETA program's fair share of facilities cost
- Depreciation charged on fully depreciated building
- Accelerated depreciation charged without justification
- Mortgage payments charged to awards
- Failure to obtain prior written approval for questionable capital improvement projects
- Interagency transfers for capital projects reflected as expenditures in the books of account

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Core Monitoring Guide – Objective 2.c: Property Management

- Indicator 2.c.1: Insurance Coverage
  - Dos the grant recipient have minimum insurance coverage for real property and equipment acquired with grant funds?
- Indicator 2.c.2: Real Property
  - Does the grant recipient have policies and procedures in place when acquiring, managing, and disposing of real property purchased with grant funds?
- Indicator 2.c.4: Rental or Leasing Costs for Property
  - Do the agreements have a schedule of payments and it is signed by a grant signatory that is authorized to sign on behalf of the organization?
  - Are rental agreements reviewed periodically to determine if circumstances have changed and other options are available?

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SMART Checklist

- Property Management (Facilities & Leases)
  - Develop or update policies to ensure that distinguish allowable costs of a operating and capital lease which may require prior approval.
  - Update policies to incorporate the new requirements for use of idle or vacant space.
  - Develop policies and procedures to determine whether or not rental costs for real property and equipment are reasonable.
  - Where applicable, develop or update procedures to incorporate the requirements for disposition of any facility or property containing Federal equity.
  - Communicate and train staff on all changes and new requirements governing property management found in the Uniform Guidance.

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Module Review

- Capital improvements, directly charged, require prior approvals.
- Capital improvements may be depreciated
- Unallowable costs include: land, amortizations, and construction of facilities.
- Costs for non-Federal entity-owned facilities are based on depreciation.
- Space costs are relative to occupancy.
- Costs are charged in accordance with cost allocation plan.
- ADA requirements must be followed.
- Donated real property may be charged through depreciation as grant charges or match, but not both.

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ETA and Uniform Guidance Resources

- Core Monitoring Guide
  - *Objective 2.c Property Management*
- Grant & Financial Management Technical Assistance Guide
  - *Chapter 5: Property Management*
- WIOA Administrative Provisions
  - *20 CFR 683.240*
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR Part 200
  - *2 CFR 200.12*
  - *2 CFR 200.13*
  - *2 CFR 200.85*
  - *2 CFR 200.310*
  - *2 CFR 200.436*
  - *2 CFR 200.439*
  - *2 CFR 200.446*
  - *2 CFR 200.449*
  - *2 CFR 200.452*
  - *2 CFR 200.465*
  - *2 CFR 200.469*

SMART
CMG
TAG
Grantee Handbook
GPS

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Web Resources

- What is the best way to find your local American Job Center (AJC)?
  - *See DOL's Service Locator*
- Want More Information?
  - *DOLETA.gov/Grants*
    - *Funding Opportunities*
    - *How to Apply*
    - *Manage Your Awarded Grant*
    - *Resources and Information*
      - *ETA Grantee Handbook*
      - *Annual Grant Terms Template*
      - *Core Monitoring Guide*
      - *Technical Assistance Guides*
      - *Uniform Guidance Quick Reference Sheet*
- Want More Training?
  - *Workforce GPS's Grants Application and Management Community of Practice*
    - *Financial Reporting*
    - *Subrecipient Management and Oversight*
    - *Indirect Cost Rates*
    - *Policies and Procedures*
    - *Procurement and Performance-Based Contracts*
    - *Capital Assets and More*
  - *WorkforceGPS*

SMART
CMG
TAG
Grantee Handbook
GPS

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Remember the Grant Management Toolbox!
UG 2 CFR 200 and 2 CFR 2900
Technical Assistance Guides (TAG)
Core Monitoring Guide (CMG)
SMART Training
Grantee Handbook
WorkforceGPS
Grant Management Toolbox
DOL Grant Recipients & Subrecipients
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Questions?
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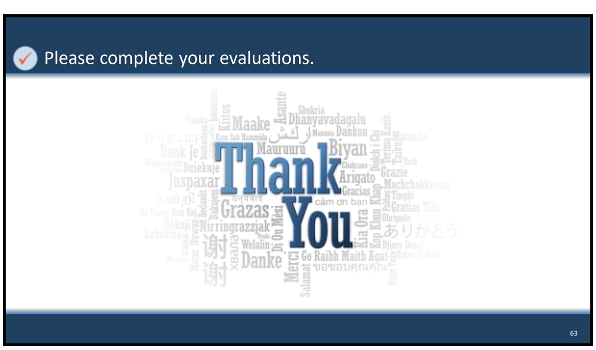
Please complete your evaluations.
Thank
You
Danke
Merci
Arigato
Grazie
Gracias
Dhanyavadagalu
Maake
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