

CHAPTER 3-140 PURCHASING, CONSTRUCTING AND RENOVATING BUILDINGS

- [3-140-00 What does this chapter do?](#)
- [3-140-10 Where does this information come from?](#)
- [3-140-20 What costs are allowable for purchasing or constructing a building?](#)
- [3-140-30 When can you use the capital expenditure method?](#)
- [3-140-40 When will you use the depreciation or use allowance method?](#)
- [3-140-50 Can you charge costs to alter or renovate a building?](#)

3-140-00 What does this chapter do?

This chapter explains to you, the recipient, how to charge the costs of a building or facility you purchase or construct to your assistance agreement from us, the Office of Surface Mining (OSM). This chapter also explains our requirements for costs to alter or renovate an existing building or facility.

3-140-10 Where does this information come from?

The Office of Management and Budget (OMB) has established principles for determining allowable costs for Federal assistance agreements. All assistance agreements we award include the appropriate cost principle circular by reference. See the appropriate circular for more information.

- A. *Cost Principles for State, Local and Indian Tribal Governments*, 2 CFR Part 225 (formerly Circular A-87).
- B. *Cost Principles for Educational Institutions*, 2 CFR Part 220 (formerly A-21).
- C. *Cost Principles for Non-Profit Organizations*, 2 CFR Part 230 (formerly A-122).

3-140-20 What costs are allowable for purchasing or constructing a building?

OMB provides two methods for determining the allowable costs for a building.

- A. Under the Capital Expenditure method, you may charge the entire cost of the building to the assistance agreement at the time you buy or build it. We must specifically approve the expenditure in advance. Capital expenditure costs are treated as direct costs.
- B. Under the Depreciation or Use Allowance method, you may charge the costs of the building to assistance agreements over time through depreciation or use allowances. You charge a portion of the cost to the program each year over the useful life of the building. Depreciation or use allowance charges are often treated as indirect costs.

PURCHASING, CONSTRUCTING, AND RENOVATING BUILDINGS

3-140-30 When can you use the capital expenditure method?

You may request our approval to charge the entire cost of a building you are purchasing or constructing as a capital expenditure. We may approve your request if we determine that it is justified. You must meet all of the following conditions.

- A. Existing law does not prohibit the charge.
- B. You will use the building exclusively in the performance of an OSM supported program, or for Federally supported programs including an OSM supported program. You expect to need this facility for this purpose long-term.
- C. You must acquire the building to accomplish the objectives of your OSM program. A general-purpose building will not meet this condition if the new space is needed because of the expansion of programs supported by non-Federal funds, or because of the expansion of Federally supported programs in facilities also used by non-Federal programs.
- D. You cannot already own the facility. However, this requirement does not apply to land you own, if you purchased the land expecting to build a facility meeting the requirements of this section.
- E. If you will have more than one Federal program in the facility, all Federal agencies responsible for administering the programs must approve your use of the capital expenditure method.
- F. If you charge the full cost under the capital expenditure method, we may require you to establish a special indirect cost rate for the programs you conduct in the facility. If you do not establish a special rate, we must notify the appropriate Federal cognizant agency before we use the approved indirect cost rate.
- G. If you sell the facility or use it for purposes we do not authorize, you will have to account to the Federal government for the Federal interest in the facility. See the applicable OMB cost circular for more information.

3-140-40 When will you use the depreciation or use allowance method?

If you do not use the capital expenditure method to purchase or construct a facility, then you will use the depreciation method or use allowance method. You must use the original acquisition cost of the facility as the base for either method. If you calculate a depreciation charge, use the useful life of the facility. You should normally calculate depreciation on a straight-line basis. Under the use allowance method, your annual charge may not exceed 2% of the acquisition cost of the building. See the applicable OMB cost circular for more information on depreciation or use allowance charges.

PURCHASING, CONSTRUCTING, AND RENOVATING BUILDINGS

3-140-50 Can you charge costs to alter or renovate a building?

- A. You may request our prior approval to charge renovation costs to your assistance agreement. The renovations may change the building's interior layout, environment, or utilities. These costs are normally charged to individual assistance agreements as a separate category of direct costs.

- B. Your request must justify the need to alter or renovate the building to support your program. At a minimum, your request to charge renovation costs to your assistance agreement should include the following information.
 - 1. Provide a cost analysis that compares the proposed alteration or renovation with other options, such as leasing, construction, or purchasing. The level of detail required for the cost analysis will depend on the proposed cost of the project, and the specific circumstances of your request.

 - 2. Demonstrate that the building has an appropriate life expectancy and is suitable for the conversion project you propose.

 - 3. Explain why the building renovation is essential to your program.

 - 4. Confirm that you will occupy the renovated space.