



**State of Connecticut
Department of Developmental Services**

Dannel P. Malloy
Governor

Jordan A. Scheff
Commissioner

Peter Mason
Deputy Commissioner

Related Party Ownership of Homes



Why are guidelines for Related Party Ownership of Homes necessary?

As more people are supported in community settings, individuals are not always able to find affordable, accessible and safe residences. This has led to an increase in the number of houses and apartments leased by individuals with intellectual disabilities that are owned by a private provider, family member, or a private corporation that is owned by a parent or other family members known as a Limited Liability Corporation (LLC). These

types of arrangements can be beneficial to the person in terms of affordable rent in a safe neighborhood with friendlier lease terms.

This type of arrangement is considered a Related Party Transaction. *A Related Party Transaction* is defined as a transaction with persons or organizations related through marriage or family, or the ability to control through ownership or business association. It is the responsibility of the Department of Developmental Services (DDS) to ensure that state funds paid to Related Parties:

- **Are used in the best interest of the individual**
- **Are spent in a legal and appropriate manner**
- **Do not result in financial gain by the owner***

* *Financial gain is considered a conflict of interest as it may result in significant influence to the extent that the individual is prevented from fully pursuing his or her own separate interests. State funds can be used to reimburse legitimate, authorized related party home ownership expenses, but cannot be used as an investment to assist related parties to make a profit.*

What is the process for reviewing Related Party Transactions?



Whenever DDS funds are used to pay for any portion of the rent in a house or apartment owned by a related party, it is the responsibility of the department to review and approve the living arrangement to ensure the setting and the related party transactions meet these essential requirements. The DDS Ethics Committee is required to approve all related party ownership of homes that will be receiving DDS funding. The committee analyzes the needs of the individual, the financial arrangements of the related party in terms of the respective residence, the calculated

Phone: 860 418-6000 ♦ TDD 860 418-6079 ♦ Fax: 860 418-6001
460 Capitol Avenue ♦ Hartford, Connecticut 06106
www.ct.gov/dds ♦ e-mail: ddsct.co@ct.gov
An Affirmative Action/Equal Opportunity Employer

fair rent for similar types of settings, any issues involving the potential to influence or control the person in regards to the setting, and adherence to the Office of Policy and Management (OPM) Cost Standards for related party transactions.

Authorization of Related Party Home Ownership Transactions

Step 1: Documentation

The following documentation must be submitted to the DDS Ethics Committee for any related party home ownership proposal:

- A copy of the IP which documents how the proposed setting meets the needs of the individual.
- A summary documenting the reason why the proposer is purchasing the home instead of the individual renting from an arm's length provider.
- A copy of the related party's proposed purchase or lease documents.
- A copy of the lease agreement between the related party and the individual funded by DDS.
- A budget of the actual costs to operate the residence. The budget should identify the amount of the charges for specific goods, services or property costs included for the proposed related party transaction.
- A summary of any financial or other benefit to the private provider, family member or related party and any financial or other benefit to the State of Connecticut of the proposed related party transaction.
- A statement documenting how related party costs will be or are controlled by the private provider, family member or related party.
- A statement documenting how internal controls shall be developed to ensure that the related party billing does not exceed the actual cost of the purchased or leased property.

Step 2: An analysis of the needs of the individual

The DDS Ethics Committee will review the individual's IP and will review a check list of potential conflict of interest questions with the case manager. This section must be approved for the proposal to be authorized:

- The Related Party Home Ownership proposal is designed to meet the needs of the individual and no potential conflicts of interest are evident.

Step 3: An analysis of DDS rule adherence and legal considerations

All of the following items must be checked in order to authorize the related party home ownership proposal:

- The rent charged to the individual does not exceed the actual cost of the purchased or leased property or fair rent for a similar setting in the same geographic location.
- Actual costs include depreciation of the building in accordance with Generally Accepted Accounting Principles (GAAP), mortgage interest, leasehold improvement interest, lease payments, taxes, insurance, utilities, and repair and maintenance expenses. The rent shall not include costs for mark-ups, profits or the payment of any loan principal amount.

Step 4: An analysis of expenditures versus financial gain.

All of the following items must be checked, or be Not Applicable (NA), in order for the Ethics Committee to authorize the related party home ownership proposal:

- Mortgage interest and/or home improvement interest is allowable as long as the loan is for the acquisition of the property or renovations, repairs and maintenance of the home rented to the individual.
- The related party can establish an additional monthly payment amount as part of the individual's rent to deposit into a Capital Reserve and Replacement fund as long as the total monthly rent does not exceed the higher of the actual cost of the purchased or leased property or the fair rent.

The related party's Capital Reserve and Replacement fund must be approved by the DDS Ethics Committee.

- a. The fund is for major capital expenses for the home in excess of \$2,000.00.
- b. The annual contribution by the total number of individuals living in the home can equal no more than 1% of the total purchase price of the property.
- c. The total accumulated amount of the Capital Reserve and Replacement fund cannot exceed 10% of the purchase price of the property.
- d. No additional costs related to a major capital repair paid for by the fund can be charged to the current resident or future residents funded by DDS.
- e. Private providers must identify the Capital Reserve and Replacement fund on its end-of-year financial statements.
- f. The related party must provide the individual and the DDS case manager with a yearly accounting of the Capital Reserve and Replacement fund.
- g. If the property is sold at any time while the individual receiving funding from DDS is residing in the home, the related party owner is required to refund the remaining amount in the Capital Reserve and Replacement fund once the building is sold. Under special circumstances, the related party may request that the DDS Ethics Committee allow the related party to transfer the balance of the Capital Reserve and Replacement fund to another home or residential setting owned by the related party and rented to individuals funded by DDS.

The documents and analysis information shall be reviewed by the Ethics Committee to determine if the terms and conditions of the proposed or existing related party transaction are reasonable and appropriate for the types of services that have been or are proposed to be contracted for, or for the goods or property that has been or is proposed to be purchased or leased.

The determination by the DDS Ethics Committee of reasonable and appropriate terms and conditions may require additional research; consultation with an arm's-length provider of similar goods, services or property; or consultation with the Connecticut Attorney General's Office. **Any authorized related party transaction shall be formalized by a contract, agreement, or lease that is signed by all parties involved in the transaction.**

Step 5: Applying for Rent Subsidy

Once the related party owned residence has been approved by the Ethics Committee, the individual and his or her family may apply for Rent Subsidy in accordance with the DDS Rent Subsidy process. If the individual has received rent subsidy in the past, the amount will need to be reviewed by the DDS Rent Subsidy Coordinator to determine the individual's current Rent Subsidy amount based on the authorized related party residential setting.