# **Module 1: How to Develop a Budget: General Principles and Considerations**

# Welcome

Welcome to the U.S. Environmental Protection Agency (EPA) Office of Grants and Debarment’s (OGD) How to Develop a Budget course. This module will provide an introduction to important considerations for applicants and recipients who are developing budgets for project grants/cooperative agreements and continuing environmental programs (CEP) applications and amendments.

Note: This training applies to EPA financial assistance awards, including recipients of Brownfields Revolving Loan Fund cooperative agreements; however, it is not intended for use on State Clean Water and Drinking Water Revolving Loan Fund capitalization grants.

This is module 1 of 4 in the How to Develop a Budget course:

* General Principles and Considerations
* Direct Costs
* Other Direct Costs
* Indirect Costs

Time needed to complete this module: Approximately 35 minutes.

# What’s in this Module?

This module will introduce you to general factors to consider when developing a budget for an EPA financial assistance agreement.

In this module, we will cover:

* Required Budget Forms
* Cost Allowability
* Prior Approval of Costs
* Pre-Award Costs
* Cost Share
* EPA in-Kind Assistance
* Pre-Award Budget Revisions
* Program Income
* Transferring Funds

# Module Notes

This training serves as a high-level overview of general principles and considerations for developing a budget. For more detailed instruction, see EPA’s Budget Development Guidance Document (<https://www.epa.gov/grants/rain-2019-g02>).

Statutes, regulations, and official EPA guidance (in that order) take precedence over this training in the event of any conflict.

All characters and organizations featured in this training are intended for demonstrative purposes only and do not represent real scenarios.

# Required Budget Forms

Let's start by reviewing the budget forms that are required when applying for EPA financial assistance agreements.

# Application for Federal Assistance

First, you must complete the Standard Form (SF)-424 – Application for Federal Assistance as part of the initial application.

The form collects basic information, such as your name, address, telephone number, email address, as well as information about your proposed funding sources and proposed project plan.

To view the SF-424, visit <https://www.grants.gov/forms/form-items-description/fid/713>.

# SF-424A Budget Information

The SF-424A Budget Information for Non-Construction Programs is used for all EPA grants, even if they contain construction activities.

# SF-424A - Budget Information for Non-Construction Programs

The SF-424A summarizes the project budget for non-construction grant programs and includes a breakdown of proposed costs by various categories.

You must also submit a budget table and a budget narrative to supplement your SF-424A. The budget narrative justifies the amounts entered for each category of the budget table.

You must explain how the costs associated with each category relate to the implementation of the work plan and the achievement of grant goals.

All items included in your budget table must be supported in the budget narrative.

To view the SF-424A, visit <https://www.grants.gov/forms/form-items-description/fid/241>.

# Whole Dollar Amounts Only

When developing your budget, only use whole dollar amounts. Do not include any cents. For example: use “$50,450.” Do not use “$50,450.38.”

Also, keep in mind that spreadsheet tools used to develop a budget (e.g., Microsoft Excel) may round cents to the nearest dollar. In some cases, rounding can lead to calculated totals being “one dollar off.” Check that the totals entered on the SF-424A match those presented in other application documents before submitting your application.

Making sure that your budget values are correct and your totals match helps avoid delays in the grantmaking process.

# Cost Allowability and Prior Approval of Costs

Let’s continue by discussing general principles for cost allowability and costs that require prior EPA approval before being included in a budget.

# General Principles for Cost Allowability

All costs included in the application budget must be necessary for the performance of the EPA award. Costs must not be prohibited by statute, the cost principles in 2 CFR Part 200 Subpart E (<https://www.ecfr.gov/current/title-2/part-200/subpart-e>), another regulation, program guidance, or the terms of the award.

Costs must be:

* Eligible: permitted by statute, regulations, or program guidance
* Reasonable: does not exceed that which would be incurred by a prudent person at the time that the cost was incurred (see 2 CFR 200.404 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=27aab907b2e565fd3e2ec4c5de717c22&mc=true&node=sp2.1.200.e&rgn=div6#se2.1.200_1404>))
* Allocable: incurred either directly or indirectly to carry out the scope of work (see 2 CFR 200.405 (<https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1405&rgn=div8>))
* Allowable: allowed to be charged to EPA assistance agreements. Statutes do not specifically prohibit these costs.

## Eligible

For example: land acquisition and construction costs are not eligible training costs.

Some program offices issue guidance or include terms and conditions that make otherwise allowable costs ineligible, such as prohibiting recipients from incurring participant support costs for trainee travel or stipends. It is important to carefully review the terms of your agreement and program guidance to determine what costs are eligible.

## Reasonable

Costs that are not ordinary for performing the scope of work for the agreement are not reasonable.

For example, purchasing vans to transport conference attendees to site visits would not be reasonable. Hiring a transportation company to provide a bus and driver for a few days would be reasonable.

Salary costs may be questioned if employees are compensated at a higher rate when their time is charged to EPA grants than for work that is not Federally funded.

## Allocable

For example, the day to day costs for the operation of a human resources department would not be allocable to the agreement as a direct cost but may be included in your indirect cost pool.

Indirect costs are allocable to assistance agreements when a Federally approved indirect cost rate is properly distributed to the recipient’s base.

If you have multiple funding sources, you must allocate direct costs among activities in proportion to the benefits derived from the costs. These costs are allocated separately from indirect costs and should be included in the appropriate direct cost category. Ensure that you have adequate systems in place to properly allocate these types of direct costs and that your budget reflects the allocations.

## Allowable

Certain costs may not be charged to EPA assistance agreements under any circumstances.

For example, alcoholic beverages, interest on borrowed funds, and lobbying or litigation may never be charged to EPA assistance agreements.

# Costs Requiring Prior EPA Approval

The full list of items that require prior EPA approval before being included in a budget is detailed in 2 CFR 200.407 (<https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1407&rgn=div8>).

You must provide precise descriptions of all items requiring prior EPA approval in your proposed scope of work and/or budget narrative. Simply budgeting for an item of cost with prior EPA approval is not enough. Your budget narrative or scope of work must clearly inform EPA that you intend to incur the cost requiring prior EPA approval.

For more information on revising budget and program plans, see 2 CFR 1500.9 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.1500&rgn=div5#se2.1.1500_19>).

# Obtaining Prior EPA Approval

Consult with your Project Officer (PO) before including any costs requiring prior EPA approval in your work plan or budget narrative.

Your Grant Specialist (GS) can provide guidance on obtaining post-award prior approvals from an EPA Grants Management Officer (GMO). Currently, POs do not have authority to make final regulatory determinations for prior approvals.

It is important to note that costs are not approved and a grant award is not final until the Award Official signs the agreement (unless the terms and conditions of the award provide otherwise).

Refer to EPA’s Guidance on Selected Items of Cost for Recipients (<https://www.epa.gov/sites/production/files/2018-05/documents/recipient_guidance_selected_items_of_cost_final.pdf>) and EPA’s Participant Support Cost Guidance (<https://www.epa.gov/sites/production/files/2018-09/documents/interim_guidance_on_participant_support_costs.pdf>) for additional information.

If you are applying for a competitive grant and have questions about prior approval, reach out to the point of contact that is listed in the RFA.

# Pre-Award Costs

Now, let’s discuss pre-award costs.

# What are Pre-Award Costs?

Pre-award costs are incurred in anticipation of an award and are necessary for the efficient and timely performance of the project scope of work.

Continuing Environmental Programs (CEP) grants commonly include pre-award costs to ensure the continued operation of those programs.

Note the following considerations for pre-award costs:

* Pre-award costs are incurred prior to the award date but on or after the start date of the budget/project period
* Pre-award costs incurred more than 90 days prior to the award date are only allowable with written approval
* Pre-award costs must be included in the application and work plan
* Pre-award costs are incurred at the applicant’s own risk

See 2 CFR 1500.9 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.1500&rgn=div5#se2.1.1500_19>) for more information on pre-award costs.

# Costs Incurred Prior to Award

To receive EPA approval, all eligible costs must be incurred during the budget/project period as defined by the start and end date shown on the grant award.

Generally, the budget period and project period in the grant agreement are the same and should reflect the period identified in the grant application, but, in some cases, the grant award may have been delayed or the EPA PO may have negotiated a change.

Some grant programs do not allow pre-award costs. Consult your PO or GS if you have questions about pre-award costs.

# Cost Share (a.k.a. Match) and EPA In-Kind Assistance

Now, let’s discuss considerations for cost sharing and EPA in-kind assistance.

# What is Cost Sharing a.k.a Matching?

Many EPA programs require grant applicants to provide a cost share (also known as matching funds) of a certain percentage of the total cost of the grant project or a percentage of the Federal share.

Costs that you intend to count towards meeting a cost share requirement must be necessary and reasonable, allowable, allocable, and eligible as discussed earlier in this module (and as outlined in the Uniform Grant Guidance (UGG)) (<https://www.ecfr.gov/cgi-bin/text-idx?SID=9753a50d824a942cb367a62721b97431&mc=true&node=pt2.1.200&rgn=div5>).

Costs included in an EPA agreement may not be charged to any other EPA agreement, financial assistance agreement with another Federal agency, or included in your indirect cost rate to qualify as cost share.

Generally, the use of Federal funds to meet cost share requirements for EPA grants is not allowed.

There are some exceptions. If you intend to use federal funds to meet cost share requirements, then you must provide supporting documentation showing the allowability of the match (for example, the authorizing authority).

# Allowability of Cost Sharing

You must include all cost sharing in your EPA approved budget and categorize contributions towards cost shares required by statute, regulation, or the terms of the assistance agreement in the appropriate budget category in the SF-424A.

Your accounting records should show any in-kind contributions from non-Federal sources in the appropriate cost category (i.e., personnel, contractual, equipment, supplies, indirect) so that EPA can easily verify to determine allowability.

For example, if you do not intend to charge the EPA assistance agreement for all the time your employees spend working on the EPA assisted project, you may include their salaries or wages in the personnel category for cost share purposes.

# Volunteer Services

Volunteer services (e.g., uncompensated services provided by people outside your organization) may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program.

Volunteer services that count towards cost shares must be included in the "other" category on the SF-424A and should be valued based on the work the volunteer performs.

For example, if you intend to count the time spent by volunteers to perform sampling work towards cost share, the contributions should be valued based on hourly market rates for employees of sampling firms or government employees performing sampling. The volunteers’ time should not be valued based on what they get paid at their place of employment.

# Voluntary Cost Sharing

Voluntary cost shares offered by applicants for competitive assistance agreements must be included in your SF-424A. Voluntary cost shares are binding. EPA program offices that are willing to accept voluntary cost shares will include a notice to that effect in the competitive announcement.

Voluntary cost shares are a form of leveraging that may only be met with eligible and allowable costs.

Some competitive programs may ask you to explain how an EPA award can leverage funds from other sources for related activities beyond the scope of work for the award.

For example, an EPA grant to clean up a site may leverage funds for housing at the site after the cleanup is complete. The funding for the housing is leveraged but is not a cost share because housing is not an eligible cost under the EPA grant.

Do not include leveraged funds that are not part of a voluntary cost share in your SF-424A budget form.

# EPA In-Kind Assistance

EPA in-kind assistance is support to an agreement that is provided by non-financial contributions. In-kind assistance is usually in the form of goods, services, or labor. An applicant may request in-kind assistance, or EPA may decide to offer that type of assistance instead of direct financial assistance.

At the EPA’s discretion, EPA in-kind assistance may be provided as part of a grant award (including contractor support and purchases or leases of equipment or purchases of supplies), or EPA personnel under Intergovernmental Personnel Act assignments or Interagency Agreements.

In-kind assistance provided by EPA is different than in-kind contributions an applicant contributes or obtains from third parties for the purposes of meeting a cost-share requirement.

# Requirements for EPA In-Kind Assistance

Costs for EPA in-kind assistance should be included on your SF-424 and should be assigned to the appropriate cost category on your SF-424A.

For example, if EPA purchases equipment that will be delivered to you as EPA in-kind assistance, the cost for those items should be placed in the equipment category. If EPA provides in-kind technical services through an EPA contractor, the costs should be placed in the contractual category.

Only authorized EPA personnel may assign tasks to EPA contractors.

# Calculating In-Kind Assistance

Cost share requirements are applicable and should be calculated based on the amount of EPA in-kind assistance in addition to the requested EPA funds.

You must acknowledge the amount and purpose of the in-kind assistance by including the estimated amount in your budget request.

The amount of EPA in-kind assistance does not count toward your cost share.

# Pre-Award Budget Revisions

Let’s move on and discuss pre-award budget revisions.

# Considerations for Pre-Award Budget Revisions

If there is a need to make changes to your budget after it is submitted to EPA, (due to incorrect cost categorization or otherwise), contact your PO or GS to revise the document(s). If the revisions impact the amount of the award, match, or EPA in-kind assistance, you may also need to submit a revised SF-424.

You may be required to submit a revised version of Section B “Budget Categories” of the SF-424A, budget narrative, and other budget related documents so that they are consistent with the approved budget in the Award Agreement.

# Additional Considerations for Pre-Award Budget Revisions

For state and tribal non-competitive CEP grants, “pen and ink” changes to applicant budgets may be acceptable. This means that EPA may be able to make changes to existing applicant forms rather than obtaining new ones, provided such changes meet certain conditions.

The conditions and programs for which such changes are allowed are defined in

Grants Policy Issuance 12-06 (<https://www.epa.gov/sites/production/files/2014-11/documents/final_gpi_12_06_streamlining_state_grant_and_expediting_outlays.pdf>) (for states) and Grants Policy Issuance 13-02 (<https://www.epa.gov/sites/production/files/2015-03/documents/grants_policy_issuance_13_02.pdf>) (for tribes).

# Program Income

Now let's learn about program income and how it is managed under EPA grants.

# What is Program Income?

Program income (PI) is defined as gross income directly generated by an EPA-supported activity or income earned as a result of an EPA award during the period of performance.

Examples of PI include:

* fees for services (e.g., conference or training registration fees)
* sales of products produced with EPA funds
* loan interest payments from loans an applicant will make with EPA funds

If PI will be generated under your project, you must include the projected value generated and used during the grant period on line 7 of your SF-424A budget form. You must also account for PI in your forecasted cash needs in line 13 of your SF-424A budget form.

As an applicant, you are encouraged to earn income to defray program costs.

See 2 CFR 200.307 (<https://www.ecfr.gov/current/title-2/section-200.307>) and 2 CFR 1500.8 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.1500&rgn=div5#se2.1.1500_18>) for more information on PI.

# Program Income Exclusions

PI does not include:

* Transactions in which previously expended EPA funds are recouped, such as:
	+ refunds
	+ rebates
* Proceeds from the sale of items purchased with EPA funds, including:
	+ real property
	+ equipment
	+ supplies
* Governmental revenues, such as:
	+ fines
	+ special assessments

Permit fees generated by state, tribal, or local environmental programs are treated as governmental revenues rather than PI.

If your organization receives more than 50% of its annual revenue from an EPA assistance agreement, consult with your PO if you plan to charge membership fees for exclusive services using EPA award funds or matching funds.

# Potential Program Income Dispositions - Addition

There are three potential dispositions of PI:

* addition
* deduction
* cost sharing

EPA’s general policy states that “addition” is the default use of PI for EPA grants unless the terms and conditions of the award provide otherwise.

The “addition” method allows you to add PI to the EPA funding and use it under the terms and conditions of the EPA award, including regulations governing the allowability of costs.

If you anticipate generating PI under your project, ensure that your budget narrative contains a clear description of the planned use of the PI. You must also ensure that your accounting systems can properly recognize, account for, and expend PI under the addition method.

# Potential Program Income Dispositions – Deduction

The “deduction” method will require you to deduct PI from total allowable costs to determine net allowable costs.

EPA policy disfavors the use of the “deduction” method.

# Potential Program Income Dispositions – Cost Share

With prior EPA approval, applicants may use PI to meet cost sharing requirements as provided in 2 CFR 200.307(e)(3) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-D/section-200.307#p-200.307(e)(3)>).

The amount of PI, if any, that is expected to be used for cost share must be included in column (f) “Non-Federal” of the Section A “Budget Summary” table on the SF-424A.

The total amount of PI that you expect to generate for both “cost share” and the “addition” disposition, if applicable, must be included in line 7 of Section B - Budget Categories. If PI is not going to be used for cost sharing, only include it in line 7.

In cases where PI is being used for cost sharing and you fail to generate sufficient income to meet your “cost share” requirement, you will either have to make up for the shortfall with other non-federal funds or you will be limited to the proportional amount of federal funds that are commensurate with the level of PI generated.

# Program Income Partially Funded by EPA

In situations in which EPA is only partially funding the activity generating PI, an appropriate adjustment must be made to ensure that the amount of funds designated PI fairly reflects EPA’s contribution.

For example, under the addition method, if the EPA award (including cost share) accounts for 50% of the cost of a conference, only 50% of the registration fees would be considered PI.

In calculating the proportion of the cost attributable to the EPA award, you must exclude the amount of revenue from anticipated fees.

PI may only be used for allowable costs. For example, a recipient could not use PI generated by registration fees to purchase alcohol for a reception.

# Program Income After Award Period

There are no Federal requirements on the use of PI earned after an award period ends unless an EPA regulation or the terms of the agreement specify otherwise.

Under 2 CFR 200.307(f) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-D/section-200.307#p-200.307(f)>) and 2 CFR 1500.8 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.1500&rgn=div5#se2.1.1500_18>), EPA may negotiate close out agreements to govern the use of accrued and future PI.

# Transferring Funds

Finally, we will review factors to consider when transferring funds.

# Accounting for Interagency Service Agreements

Depending on state, tribal, or local law, transfers of funding between departments or agencies of the same unit of government may be Interagency Service Agreements for distribution of direct costs, subawards, or procurement contracts.

If you are a government applicant, your PO and GS will work with you to ensure that budgets are structured appropriately to characterize how EPA funds will be transferred and how expenditures will be categorized. For example, separate budgets may need to be provided (encompassing both direct and indirect costs) for each department’s share of the EPA award, or transactions may be characterized as subawards if permissible under state, tribal, or local law.

Transactions between agencies may also be classified as procurement contracts, in which case the costs would be classified as contractual. Transactions between agencies or departments of other units of government may also be classified as contractual.

Additional information on interagency transfers between departments of the same unit of government is available at the EPA Subaward Policy Additional Resources page (<https://www.epa.gov/grants/epa-subaward-policy-additional-resources>).

## Separate Budgets

If you provide separate budgets for each department, the EPA award document should include separate budget worksheets for each department receiving EPA funds. However, these budgets may be consolidated into a single budget table at the time of award depending on Regional or Headquarters practice.

## Subawards

If you characterize the funding transfers among departments as subawards, a line item amount should be included in the budget narrative for the “Other” cost category. You must comply with the requirements for pass-through entities at 2 CFR 200.331 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?n=se2.1.200_1331>), if the transfer will be in the form of a subaward.

# Institutes of Higher Education Fund Transfers

Transfers of funds between departments of the same Institutions of Higher Education (IHE) are governed by the IHE’s internal policies and procedures.

EPA does not consider these transactions subawards or procurement contracts.

# Module Summary

Let’s review what you have learned in this module.

# What You Have Learned

This module introduced you to general factors to consider when developing a budget for EPA financial assistance awards.

* In this module, we covered:
	+ Required Budget Forms
	+ Cost Allowability
	+ Prior Approval of Costs
	+ Pre-Award Costs
	+ Cost Share
	+ EPA in-Kind Assistance
	+ Pre-Award Budget Revisions
	+ Program Income
	+ Transferring Funds

For information on how to develop and categorize costs for an EPA assistance agreement, check out the other modules in the How to Develop a Budget Training:

* Direct Costs
* Other Direct Costs
* Indirect Costs

# Thank you!

You have completed the General Principles and Considerations module.

# Helpful Resources

## Forms

* Application for Federal Assistance (SF-424) (<https://www.grants.gov/forms/form-items-description/fid/713>)
* Budget Information for Non-Construction Programs (SF-424A) (<https://www.grants.gov/forms/form-items-description/fid/241>)

## EPA Policy and Guidance

* EPA’s Budget Development Guidance Document (<https://www.epa.gov/grants/rain-2019-g02>)
* EPA’s Guidance on Selected Items of Cost for Recipients (<https://www.epa.gov/sites/production/files/2018-05/documents/recipient_guidance_selected_items_of_cost_final.pdf>)
* EPA’s Participant Support Cost Guidance (<https://www.epa.gov/sites/default/files/2020-11/documents/epa-guidance-on-participant-support-costs.pdf>)
* Subaward Policy (<https://www.epa.gov/grants/grants-policy-issuance-gpi-16-01-epa-subaward-policy-epa-assistance-agreement-recipients>)
* EPA Subaward Policy Frequent Questions (<https://www.epa.gov/sites/production/files/2017-11/documents/epa_subaward_policy_frequent_questions_updated_11_30_2017.pdf>)
* GPI 12-06 (Pre-Award Budget Considerations for States) (<https://www.epa.gov/sites/production/files/2014-11/documents/final_gpi_12_06_streamlining_state_grant_and_expediting_outlays.pdf>)
* GPI 13-02 (Pre-Award Budget considerations for Tribes) (<https://www.epa.gov/sites/production/files/2015-03/documents/grants_policy_issuance_13_02.pdf>)

## Code of Federal Regulations

* Uniform Grant Guidance (UGG) (<https://www.epa.gov/grants/uniform-requirements-managing-grants-apply-all-federal-executive-agencies>)
* Cost Principles: 2 CFR Part 200 Subpart E Cost Principles (<https://www.ecfr.gov/current/title-2/part-200/subpart-e>)
* Program Income: 2 CFR 200.307 (<https://www.ecfr.gov/current/title-2/section-200.307>)
* Reasonable Costs: 2 CFR 200.404 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.200&rgn=div5#se2.1.200_1404>)
* Allocable Costs: 2 CFR 200.405 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.200&rgn=div5#se2.1.200_1405>)
* Prior EPA Approval: 2 CFR 200.407 (<https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1407&rgn=div8>)
* Program Income: 2 CFR 1500.8 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.1500&rgn=div5#se2.1.1500_18>)
* Budget Revisions: 2 CFR 1500.9 (<https://www.ecfr.gov/cgi-bin/text-idx?node=pt2.1.1500&rgn=div5#se2.1.1500_19>)

# Acronyms/Terms

* A/E: Architecture/ Engineering
* CEP: Continuing Environmental Program
* CERCLA: Comprehensive Environmental Response, Compensation, and Liability Act
* CFR: Code of Federal Regulations
* DBE: Disadvantaged Business Enterprise
* EPA: Environmental Protection Agency
* Fringe Benefit Rate: The percentage that results from dividing the cost of an employee's fringe benefits by the wages paid to the employee for the hours worked.
* FTE: Full Time Equivalent
* GMO: Grants Management Office
* GPI: Grant Policy Issuance
* GS: Grants Specialist
* IHE: Institute of Higher Education
* MTDC: Modified Total Direct Costs
* OGD: Office of Grants and Debarment
* PI: Program Income
* PO: Project Officer
* PPG: Performance Partnership Grant
* Procurement Contract: An agreement to use certain products and services on a project
* RFA: Request for Applications
* RFIP: Request for Initial Proposals
* UGG: Uniform Grant Guidance