# **Module 3: How to Develop a Budget: Other Direct Costs**

# 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 focus on applying other direct costs associated with EPA financial assistance awards. It is intended 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 3 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 20 minutes.

# What’s in this Module?

This module provides guidance on direct costs that do not fit in any of the specific budget categories on the Budget Information for Non-Construction Programs Form (SF-424A) (<https://www.grants.gov/forms/form-items-description/fid/713>), i.e., other direct costs.

In this module, we will cover:

* Examples of Other Direct Costs
* Rental and Leasing Considerations
* Participant Support Costs
* Subawards (i.e., Subgrants)
* How to Calculate Other Direct Costs

Module Notes

This training serves as a high-level overview of other direct costs (rental/lease of equipment, office space, meeting or conference facilities, participant support costs, subawards, etc.). For more detailed instruction, refer to EPA’s Budget Development Guidance (<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 scenarios.

# Budget Requirements and Forms

As discussed in the General Principles and Considerations module, when preparing your budget for an EPA grant application, you may be required to submit the Budget Information for Non-Construction Programs Form (SF-424A).

A supplementary budget narrative must also be submitted to justify the amounts entered for each category of the budget table in the SF-424A.

You must provide an explanation as to 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.

Note: You must complete the SF-424A form downloaded from the specific [Grants.gov](https://www.grants.gov/) Workspace you created for the opportunity to which you are applying.

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

# Other Direct Costs on the SF-424A

This training will cover how to complete Section B, 6. Object Class Category (h. Other) in the SF-424A form and respective budget narrative.

# Examples of Other Direct Costs

Let’s get started by reviewing items that fall into the other direct cost category.

# Other Direct Cost Examples

Examples of costs that may be in this category are:

* rental/lease of equipment, office space, and meeting or conference facilities
* participant support costs
* subawards
* insurance and indemnification
* telephone service and utilities
* occasional document reproduction at local copying centers
* capitalization funding for revolving loan programs
* third party in-kind contributions towards cost share
* tuition remission and scholarships under agreements with educational institutions
* transactions between recipients and federal agencies
* land acquisition costs when authorized under the financial assistance program

Of these examples, three are common other direct costs. They include:

* rental/lease of equipment, office space, and meeting or conference facilities;
* participant support costs; and
* subawards.

This module will cover some additional considerations for applying these common other direct costs to your budget.

# Other Direct Costs

The “Other” category includes only those types of direct costs that do not fit in any of the specific budget categories within direct costs (e.g., personnel, travel, equipment).

Management fees, or similar charges that amount to a profit, are unallowable and may not be included in the “Other” category.

The term management fees, or similar charges, refers to expenses added to the direct costs in order to accumulate and reserve funds for ongoing business expenses, unforeseen liabilities, or for other similar costs that are not allowable under EPA assistance agreements.

# Rental and Leasing Considerations

Let’s get started by reviewing rental and leasing considerations associated with other direct costs.

# Rental Considerations for Property and Equipment

Examples of situations in which rental costs may be fully allocable to an assistance agreement include space rented for a conference, training course, community meeting, or temporary use of a laboratory.

The allowability of costs for rental of equipment (including vehicles), office, laboratory, or conference/meeting space is governed by 2 CFR 200.465 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=c3b2670cbdf10bcd24cbd1b002462c35&mc=true&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1465>)

Property and equipment rentals are subject to the Disadvantaged Business Enterprise (DBE) requirements outlined in 40 CFR Part 33 (<https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title40/40cfr33_main_02.tpl>).

A space rented for the broader organization, such as a main office, is typically categorized as an “indirect" cost (row j in the SF-424A). A space rented for a discrete activity necessary to carry out the assistance agreement may be charged as an “other direct cost.”

# Facility Rental for Conferences and Meetings

Conference/meeting facility rental charges may include audio-visual and catering services if these services are provided through the facility.

You must compete requirements for conference/meeting facilities when the amount of the charges are expected to exceed the current micro-purchase threshold defined in 2 CFR 200.1 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=e034f369247cac51e0af10b5b8c0a98f&mc=true&node=pt2.1.200&rgn=div5#se2.1.200_11>). As of January 2023, the micro-purchase threshold is $10,000 for most recipients. This threshold is subject to adjustment. Refer to RAIN-2018-G04 (<https://www.epa.gov/grants/rain-2018-g04>) for additional information.

Facility rentals are subject to the DBE requirements outlined in 40 CFR Part 33 (<https://www.ecfr.gov/current/title-40/chapter-I/subchapter-B/part-33>).

# Leasing Considerations

Leases and other rental agreements with costs that will be charged directly to the EPA assistance agreement are generally subject to the competition requirements outlined in 2 CFR 200.319 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=c3b2670cbdf10bcd24cbd1b002462c35&mc=true&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1319>) and procurement methods in 2 CFR 200.320 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=c3b2670cbdf10bcd24cbd1b002462c35&mc=true&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1320>.

Leasing costs under “sale and lease back” and “less-than-arm’s length” arrangements are allowable only up to the amount that would be allowed had you continued to own the property. This amount would include expenses such as depreciation, maintenance, taxes, and insurance. Refer to 2 CFR 200.465(b) and (c) (<https://www.ecfr.gov/current/title-2/part-200#200.465>) for more details on special lease arrangements. Consult with your Project Officer (PO) and Grants Specialist (GS) if these situations arise.

Under a “sale and lease back” transaction, a grant recipient sells an asset to a buyer and then leases the asset back from the buyer. The transaction allows the recipient to be able to use the asset and without owning it.

A “less-than-arm's-length” lease is one in which one party to the lease agreement is able to control or substantially influence the actions of the other.

# Participant Support Costs

Now let’s review how to apply participant support costs to your grant budget.

# What are Participant Support Costs?

Participant support costs include expenses that your organization pays on behalf of participants, including such items as:

* stipends
* training fees
* travel assistance for trainees and other program participants who are not employees of your organization
* relocation expenses (with adequate justification)
* incentives paid to participants in research experiments, focus groups, surveys, or similar research activities
* rebates or other subsidies, as provided in EPA’s Participant Support Cost Guidance (<https://www.epa.gov/grants/rain-2018-g05>)

Participant support costs may be relevant if your project has an education or outreach component.

Changing the amount budgeted for participant support costs after an award has been made requires EPA approval.

# Participant Support Costs Budget Details

When incorporating participant support costs into your budget, ensure that your budget detail lists participant support costs as a separate line item.

Participant support costs are only allowable if your PO concurs that the costs are appropriate. Your authorized EPA official must approve the description of activities that you will support as well as your budget narrative for participant support costs.

Note that participant support costs are not considered subawards.

Participant support costs must be excluded from the Modified Total Direct Cost (MTDC) pool for the purposes of applying indirect cost rates. Refer to the Indirect Costs module of the How to Develop a Budget course for additional details.

For additional detailed information on participant support costs, EPA’s Guidance on Participant Support Costs (<https://www.epa.gov/grants/rain-2018-g05>).

# Subawards (i.e., Subgrants)

Now let's understand how subawards are classified as other direct costs.

Subawards are awards of financial assistance by a pass-through entity (the recipient) to a subrecipient to carry out part of the EPA-funded project.

Subawards may also include:

* loans
* loan guarantees
* interest subsidies
* similar assistance provided to borrowers in EPA’s revolving loan fund capitalization grants

Subawards do not include:

* technical assistance in the form of services instead of money or other assistance in the form of revenue sharing or direct appropriations
* payments to program beneficiaries such as participant support costs
* transactions between recipients and federal agencies
* procurement contracts

# Subaward Budget Details

You must provide a description of the types of activities to be supported with subawards in either your budget narrative or scope of work.

If you choose to fund a type of subaward that is not included in your budget narrative or scope of work, you must obtain prior EPA approval.

# Subaward Considerations

When preparing your budget for subawards, consider the following:

* Subawards are subject to stringent requirements described in the Uniform Grant Guidance (UGG) at 2 CFR 200.331 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=e94804fdb75a65c36ea64dc7e4062085&mc=true&node=se2.1.200_1331&rgn=div8>) and 2 CFR 200.332 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=e94804fdb75a65c36ea64dc7e4062085&mc=true&node=se2.1.200_1332&rgn=div8>).
* Generally, subawards may be made without competition. However, transactions with for-profit firms or individual consultants are almost always procurement contracts and are generally subject to competition requirements specified in the 2 CFR Part 200 Procurement Standards (2 CFR 200.317 through 200.326) (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=c3b2670cbdf10bcd24cbd1b002462c35&mc=true&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1317>).
* Differences between subrecipients and contractors are described in 2 CFR 200.331 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=e94804fdb75a65c36ea64dc7e4062085&mc=true&node=se2.1.200_1331&rgn=div8>) and Appendix A of EPA’s Subaward Policy (<https://www.epa.gov/grants/grants-policy-issuance-gpi-16-01-epa-subaward-policy-epa-assistance-agreement-recipients>).
* Subawards to foreign or international organizations or subawards that will be performed in a foreign country should be discussed with your PO.

# Additional Subaward Guidance

For more information on subawards, refer to EPA’s Subaward Policy (<https://www.epa.gov/grants/grants-policy-issuance-gpi-16-01-epa-subaward-policy-epa-assistance-agreement-recipients>) or visit the EPA’s Subaward Policy Additional Resources page (<https://www.epa.gov/grants/epa-subaward-policy-additional-resources>).

The Additional Resources page provides a Frequent Questions page and information on Cross Cutter Requirements.

# Example: Other Direct Costs

Now that we’ve learned about other direct costs, let’s go through an example of how to apply them when developing a grant budget.

Let’s use a hypothetical EPA assistance agreement as an example. Suppose you are managing an Urban Waters grant that involves water quality sampling in the Wolf River, analysis of the results, and community training to encourage efforts to improve water quality.

# Example: Other Direct Costs Details

Under the grant, your organization will rent dredge equipment ($2,500) for sample collection and lease with a laboratory ($8,000) for sample analysis.

Your organization will also pay training fees ($750) for community members to participate in a training to improve water quality. Document reproduction costs ($250) will be incurred to prepare other outreach materials for community members.

Your organization will partner with Friends of the Wolf River using a subaward ($18,000) to encourage community participation in the project. Friends of the Wolf River is a 501(c)(3) nonprofit organization that promotes conservation of the Wolf River.

# Example: Other Direct Cost Categorization

Let’s look at how these costs are categorized as other direct costs.

The tables below show how the costs in the example are categorized as other direct costs. Add them up to calculate the total other direct costs.

## Rental and Leasing Costs

|  |  |
| --- | --- |
| Item | Estimated Cost |
| Suction dredge equipment rental | $2,500 |
| Laboratory lease | $8,000 |

## Participant Support Costs

|  |  |
| --- | --- |
| Item | Estimated Cost |
| Training fee for 3 community members | $750 |

## Subawards

|  |  |
| --- | --- |
| Item | Estimated Cost |
| Subaward to Friends of Wolf River | $18,000 |

## Additional Direct Costs

|  |  |
| --- | --- |
| Item | Estimated Cost |
| Document reproduction at Office Depot | $250 |

## Total

|  |  |
| --- | --- |
| Total | $29,500 |

# Populating the SF-424A

On your SF-424A form, populate row (h) with your calculated “other” direct cost total.

Then, add up all direct costs, (a) through (h), to populate the Total Direct Charges (i).

# Module Summary

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

# What You Have Learned

In this module, you learned about the requirements for including other direct costs in work plans, budgets, and budget narratives for EPA assistance agreements for project grants/cooperative agreements and continuing environmental program grants.

We covered:

* Examples of Other Direct Costs
* Other Direct Cost Budget Details
* Rental Considerations
* Lease Considerations
* Participant Support Costs
* Subawards (i.e., Subgrants)
* How to Calculate Other Direct Costs

For information on how to identify and apply additional costs for an EPA assistance agreement, check out the other modules in the How to Develop a Budget Course:

* General Principles and Considerations
* Direct Costs
* Indirect Costs

Thank you!You have completed the Other Direct Costs module.

# Resources

## Forms and Tools

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

## EPA Policy and Guidance

* EPA’s Budget Guidance Document (<https://www.epa.gov/sites/production/files/2019-05/documents/applicant-budget-development-guidance.pdf>)
* Micro-purchase and Simplified Acquisition Threshold: RAIN-2018-G04 (<https://www.epa.gov/grants/rain-2018-g04>)
* Guidance on Participant Support Costs (<https://www.epa.gov/grants/rain-2018-g05>)
* Subaward Policy (<https://www.epa.gov/grants/grants-policy-issuance-gpi-16-01-epa-subaward-policy-epa-assistance-agreement-recipients>)
* Subaward Policy Additional Resources (<https://www.epa.gov/grants/epa-subaward-policy-additional-resources>)

## Code of Federal Regulations

* 40 CFR Part 33 Participation in DBE (<https://www.ecfr.gov/current/title-40/chapter-I/subchapter-B/part-33>)
* 2 CFR 200.1 Definitions (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.1>)
* 2 CFR Part 200 Procurement Standards (200.317-326) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.317>)
* 2 CFR 200.331 Subrecipient and Contractor Determinations (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-D/subject-group-ECFR031321e29ac5bbd/section-200.331>)
* 2 CFR 200.332 Requirements for Pass-through Entities (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-D/subject-group-ECFR031321e29ac5bbd/section-200.332>)
* 2 CFR 200.465 Rental Costs of Real Property and Equipment (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.465>)

# 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