# **Module 2: How to Develop a Budget: 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 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.

There is separate guidance for project grants and CEPs that do not follow the 40 CRF Part 35 (<https://www.ecfr.gov/current/title-40/chapter-I/subchapter-B/part-35>) guidance for simplified cost reviews.

This is module 2 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 1 hour.

# What’s in this Module?

This module provides guidance on direct costs for applicants preparing proposed work plans, budgets, and budget narratives for EPA assistance agreements for project grants/cooperative agreements and CEP grants.

In this module, we will cover:

* Requirements and Forms, including cost allowability
* Personnel and Fringe Benefits
* Travel Costs
* Equipment Costs
* Supply Costs
* Contractual Costs
* Construction Costs

# Module Notes

This training serves as a high-level overview of direct costs. For more detailed instruction, refer to EPA’s Budget Guidance Document (<https://www.epa.gov/grants/rain-2019-g02>).

In the event of a conflict between content in this training and official statutes, regulations, or EPA guidance, the policies and procedures outlined in official statutes, regulations, and EPA guidance take precedence.

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

# Direct Cost Requirements

Let’s get started by reviewing EPA’s direct cost requirements.

# Budget Requirements and Forms

As discussed in the General Principles and Considerations module, when preparing your budget for an EPA grant application, for non-construction programs, you may be required to submit the 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 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.

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>.

# Completing the SF-424A

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

# Cost Allowability

All costs must be necessary for the performance of the EPA award. Costs must not be prohibited by statute, the 2 CFR Part 200 Subpart E Cost Principles (<https://www.ecfr.gov/cgi-bin/text-idx?SID=27aab907b2e565fd3e2ec4c5de717c22&mc=true&node=sp2.1.200.e&rgn=div6>), 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; refer to 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
* Allowable: allowed to be charged to EPA assistance agreements

# Personnel and Fringe Benefits

Let’s get started by reviewing the types of direct costs that are classified as personnel and fringe benefits.

# Personnel Salaries

The personnel category includes only direct costs for salaries, wages, and allowable incentive compensation for employees of your organization who will perform work directly for the project.

The following are not classified as personnel:

* consultant costs (services provided by individuals who are not your employees)
* contractors
* compensation for program participants (interns and fellows who are not your employees)
* costs for employees of subrecipients

If you do not identify personnel costs in the budget, EPA may ask you for a written explanation of how you will manage the award in the absence of charges for personnel costs.

# Personnel Salary Budget Details

When incorporating personnel salaries into your budget, ensure that your budget narrative includes the following:

* staff position
* annual salary or other rate, such as hourly rate
* number of personnel proposed for each position
* time each employee will devote to the EPA-funded project

Your employees must not be compensated at a higher rate under the EPA assistance agreement than what you pay the employees for activities that are not federally funded.

For employees working a 40-hour work week, one year equals 2,080 working hours.

# Example: Direct Personnel Salaries

Now that we’ve learned about personnel salaries, 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: Direct Personnel Salaries Details

Let’s assume that your project will be supported by two engineers, one scientist, four junior scientists, and one manager, all of whom are employed by your organization.

Each position will spend a different amount of time on the grant project.

## Example: Direct Personnel Salaries based on the Percentage of Time

To calculate the total costs for direct personnel salaries, you will need the following information:

* Type
* Number of Staff
* Annual Salary
* Percentage of Time

For each position type, determine the annual salary and specify the percentage of time you estimate that they will spend on the grant project.

Then we calculate the cost for each position type by multiplying the number of staff, the annual salary, and the percentage of time.

Engineer example: 2 \* $125,000 \* 0.10 = $25,000

We add the personnel costs for each position type to get the total personnel cost.

The following table provides a complete example.

| Type | Number of Staff | Annual Salary | Percentage of Time | Personnel Cost |
| --- | --- | --- | --- | --- |
| Engineer | 2 | $125,000 | 10% | $25,000 |
| Scientist | 1 | $75,000 | 15% | $11,250 |
| Junior Scientist | 4 | $50,000 | 30% | $60,000 |
| Manager | 1 | $200,000 | 25% | $50,000 |
| Total |  |  |  | $146,250 |

## Example: Direct Personnel Salaries based on the Number of Anticipated Hours

Alternatively, costs can be based on hourly rates and the number of anticipated hours that personnel will spend on the project. You will need the following information:

* Type
* Rate per Hour
* Number of Hours required per type

Identify the rate per hour for each position type. In our example, the rate is the same for all employees within each position type.

The number of hours is the anticipated total for each position type at the specified rate. For example, we have 2 engineers for our project. Each will devote 200 hours, for a total of 400 hours at $60 per hour. The personnel cost is simply the rate per hour multiplied by the number of hours. Engineer example: $60 \* 400 = $24,000

We add the personnel costs for each position type to get the total personnel cost.

The following table provides a complete example.

| Type | Rate per Hour | Number of Hours | Personnel Cost |
| --- | --- | --- | --- |
| Engineer | $60 | 400 | $24,000 |
| Scientist | $36 | 300 | $10,800 |
| Junior Scientist | $24 | 2,500 | $60,000 |
| Manager | $95 | 500 | $47,500 |
| Total |  |  | $142,300 |

# Fringe Benefits

Fringe benefits are allowances and services that you provide to your employees as compensation in addition to regular salaries and wages. They include, but are not limited to:

* cost of leave
* employee insurance
* pensions and unemployment
* car and phone allowances
* holiday bonuses
* similar benefits

If you do not specify an amount for fringe benefits, EPA may verify that you do not intend to charge any fringe benefit costs to the agreement. If you do not have a fringe benefit rate but intend to charge the EPA assistance agreement for fringe benefits, you should provide an estimate based on your most recent actual fringe benefit costs.

A fringe benefit rate is expressed as a percentage. It is calculated by dividing the cost of an employee's fringe benefits by the wages paid to the employee.

# Fringe Benefits Details

Fringe benefit costs are allowable only if the benefits are reasonable and required by law, governmental unit employee agreement, or policy you have established that is applied consistently to activities that are federally funded and non-federally funded.

Some organizations have different fringe benefits for different positions.

# Determining Your Fringe Benefit Rate

The fringe benefit rate is 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.

In most cases, your organization’s human resource manager should be able to provide you with the organization’s fringe benefit rate.

The following slides will walk you through the steps that are required to calculate the fringe benefit rate for the organization.

## Example: Fringe Benefits for Individuals

David is an engineer on your project. Per your organization’s policy, he is guaranteed the following fringe benefits:

| Benefit | Annual Cost per Employee |
| --- | --- |
| Health Insurance | $1,230 |
| Car Allowance | $1,400 |
| Paid Leave | $1,650 |
| Holiday Bonus | $1,000 |
| Total | $5,280 |

To calculate the fringe benefit rate, we first need to find the total fringe benefit cost per employee per year.

## Example: Fringe Benefits for All Employees

Next, we will need to find total fringe benefit cost for the organization. We calculate this by totaling the cost of fringe benefits for all the employees. Fringe benefits can vary between employees.

| Employee | Position | Total Fringe Benefits |
| --- | --- | --- |
| David Khan | Engineer | $5,280 |
| Diana Miller | Engineer | $5,050 |
| Peter Johnson | Scientist | $3,930 |
| Karen Chen | Manager | $9,220 |
| Total |  | $23,480 |

Then, we need to find the average fringe benefit cost for the organization. This is calculated by dividing the total cost of the fringe benefits by the number of employees with fringe benefits.

Example: $23,480 / 4 = $5,870

The average fringe benefit cost for the organization is $5,870.

## Example: Total Personnel Cost

The next step in finding the fringe benefit rate is determining the total personnel cost. The total personnel cost is calculated by totaling personnel costs for all employees. Many organizations will omit employees with outlying salaries from these calculations in order to better estimate the average, where outlying salaries refers to those that are significantly different than the majority of employees and could skew the average personnel cost.

| Employee | Position | Personnel Cost |
| --- | --- | --- |
| David Khan | Engineer | $24,000 |
| Diana Miller | Engineer | $24,000 |
| Peter Johnson | Scientist | $10,800 |
| Karen Chen | Manager | $47,500 |
| Total |  | $106,300 |

Then, we need to find the average personnel cost. This is calculated by dividing the total personnel cost by the number of employees with fringe benefits.

Example: $106,300 / 4 = $26,575

The average personnel cost for the organization is $26,575.

## Example: Fringe Benefit Rate

The final step in determining the organization’s fringe benefit rate is to divide the average fringe benefit cost by the average personnel cost.

Example: $5,870 / $26,575 \* 100 = 22%

The fringe benefit rate for the organization is 22%.

# Incorporating Fringe Benefits

When incorporating fringe benefits into your budget, ensure that your budget details include any fringe benefit rates and the items that comprise them, as well as the types and amounts of proposed fringe benefit costs. The budget detail narrative should provide an explanation of the basis for the estimate and show the calculations.

You may express fringe benefits in terms of a percentage of your employees’ salaries. However, fringe benefits must be allocable to the assistance agreement based on the amount of time the employee spends on the project.

EPA may question fringe benefit rates that seem unusually high compared to similar recipient organizations.

# Accounting for Leave

Some organizations include leave in their fringe benefit rate. If your organization’s rate does not include leave, you must account for it by equitably distributing leave across all related activities, including federal awards over the course of the full year.

EPA assistance agreements only bear the costs of leave in proportion to the employees’ work on the agreements.

In the absence of a rate that covers leave costs, EPA may ask whether and how you intend to charge the costs of leave to the agreement, especially for employees who work less than full-time on any one agreement.

# Example: Fringe Benefits Details

Let’s go through an example to show how a fringe benefit rate is applied when developing a grant budget.

We will assume your organization has a fringe benefit rate of 22%.

Note: The rate used for calculating fringe benefit cost should be the rate of the entire organization, not just the rate for employees working on the grant award.

## Example: Fringe Benefits

Fringe benefits should be included for the personnel listed in your personnel cost budget and only for the percentage of time devoted to the project.

We multiply the personnel cost by the organization’s fringe benefit rate to calculate the fringe benefit cost for each employee.

Engineer example: 0.22 \* $24,000 = $5,280

Finally, we add up all of the fringe benefit costs for all employees to calculate the total fringe benefit cost.

The following table provides a complete example.

| Employee | Position | Fringe Benefit Rate | Personnel Cost | Total Fringe Benefits |
| --- | --- | --- | --- | --- |
| Neal Patel | Engineer | 22% | $24,000 | $5,280 |
| Diana Miller | Engineer | 22% | $24,000 | $2,376 |
| Peter Johnson | Scientist | 22% | $10,800 | $2,376 |
| Karen Chen | Manager | 22% | $47,500 | 10,450 |
| Total |  |  |  | $23,386 |

# Travel Costs

Now, let’s review how to account for costs associated with travel.

# Travel Expenses

The travel category includes only direct costs for employee trips that are necessary to perform work under the EPA agreement and are integral to the purpose of the proposed project activities. They include, but are not limited to:

* common carrier transportation fares
* lodging
* per diem (daily costs associated with lodging, meals, and incidental charges)
* rental vehicles
* taxes
* internet access charges
* phone calls

Travel costs for program participants who are not employees should be included in the “other” budget category. Rental vehicles should be classified as “travel” when they are for individual employees. Vehicles for large groups (buses and vans) should be classified as “contractual.”

# Travel Budget Details

When incorporating travel costs into your budget, ensure that your budget details include:

* narrative description of the planned trips
* purpose of travel
* destination
* number of travelers
* estimated costs

# Other Travel Expense Considerations

Travel costs may not exceed the per diem rates and amounts for Federal travel unless your cognizant federal audit agency (or EPA, if requested) has accepted a travel policy that provides different rates and costs for travel.

Travel for executives (e.g., governors, mayors, elected tribal leaders) and legislators (including tribal council members) is allowable with prior approval by the EPA Grant Management Officer (GMO) if the travel is specifically related to performing an EPA-funded project.

Travel by officials with nonprofits or institutions of higher education is allowable as a direct cost if the travel costs are allocable to an EPA award and not included in the recipient’s indirect cost pool.

EPA must approve the use of agency funds for international travel. Foreign travel includes trips to Mexico and Canada, but does not include trips to Puerto Rico, or U.S. territories or possessions. Approval is typically provided prior to award. If you routinely travel to Mexico and Canada by motor vehicle (e.g., for sampling or meetings), you may describe your travel in general terms in your work plan or budget narrative. If you do not identify your international trips at the time of award or indicate that there will be no international travel, you must obtain EPA approval for international travel through your Project Officer (PO).

For more information about current per diem rates visit <https://www.gsa.gov/travel/plan-book/per-diem-rates>.

# Example: Travel Budgeting

Let’s go through an example to show how to include travel expenses in your grant budget.

We will assume that your project will require two trips in addition to routine site visits.

We will calculate the cost of each trip, then we will add up the costs of all the trips to determine the total travel budget.

## Example: Travel Costs for Individual Trips

First, we determine all of the direct cost items associated with each trip.

Then, we multiply the estimated cost for each item by the number of travelers and the duration of the trip to get the total cost. Hotel example: $90/night \* 3 nights/traveler \* 6 travelers = $1,620.

Then, we add up all the items to calculate the total cost of the trip. This table outlines the costs associated with a trip to Memphis, Tennessee for water sampling.

| Item | Estimated Cost | Duration | Number of Travelers | Total Cost |
| --- | --- | --- | --- | --- |
| Airfare | $450 | N/A | 6 | $2,700 |
| Hotel | $90 | 3 Nights | 6 | $1,620 |
| Hotel tax | $4 | 3 Nights | 6 | $72 |
| Per diem | $65 | 4 Days | 6 | $1,560 |
| Rental cars | $60 | 4 Days | 2 | $480 |
| Total |  |  |  | $3,192 |

## Example: Total Travel Costs

We add up all of the costs of all of the trips to calculate the total travel cost for your project. Routine travel for site visits may be combined into a single amount. This table shows an example of routine travel costs.

| Purpose | Destination | Estimated Cost |
| --- | --- | --- |
| Visit to upper river basin for water sampling | Memphis, TN | $6,360 |
| Visit to downstream tributary for soil sampling | Stout Creek, MS | $2,100 |
| Routine site visits | Rossville, TN | $14,550 |
| Total |  | $23,010 |

# Equipment and Supply Costs

Let’s review the types of direct costs that are classified as equipment and supply costs.

# Equipment Expenses

Equipment is tangible, non-expendable, personal property with a useful life of more than one year and a cost of more than $5,000 per unit. ($5,000 limit includes accessories and services necessary for equipment to operate)

Equipment purchases are only allowable if short-term rentals are not cost effective. Equipment purchases should be classified as “direct costs” while equipment rentals should be classified as “other.”

Service agreements included in the price of equipment are considered “equipment” costs, although separate service contracts should be classified as “contractual.”

Organizations may have their own thresholds and/or definitions for equipment as long as the threshold is less than $5,000 and there is a written policy.

If an item costs more than $5,000 but has a useful life of less than one year, work with your PO and Grant Specialist (GS) to determine how it should be categorized and whether prior approval is necessary.

# Equipment Budget Details

Ensure your budget narrative includes an itemized list of all planned equipment purchases, descriptions of the types of equipment, and explanations for why the purchase is necessary.

If the equipment is to be used on other federally funded projects, you may be permitted to purchase equipment as long as costs are properly allocated.

Contingency reserves for equipment associated with a major information technology infrastructure project or similar activities are allowable to the extent permitted by 2 CFR 200.433 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=13ba9427d76d0457687883925c3868e9&mc=true&node=se2.1.200_1433&rgn=div8>). You should include this as a separate line item in the equipment category.

You will need EPA award approval before you purchase any equipment not itemized and approved in your application.

# Equipment Purchasing Process

Equipment purchases require prior EPA approval. Prior approval may be provided at time of award when the budget is approved.

You must comply with the competitive procurement requirements or the price reasonableness and equitable distribution of purchases requirements found in 2 CFR 200.320(a) (<https://www.ecfr.gov/cgi-bin/text-idx?SID=1bfe19e9af2139b3aabf4d635bfebe5e&mc=true&node=se2.1.200_1320&rgn=div8>). Sole source justifications for equipment purchases are only acceptable if your project requires the use of a specific device that is patented and available from only one vendor.

You may specify brand names and prices in proposed budgets if the amount of the equipment purchase is less than the 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>).

Some EPA financial assistance programs may be subject to Buy American requirements. To find out if your program is subject to Buy American requirements, visit <https://www.epa.gov/grants/epas-financial-assistance-infrastructure-programs-subject-build-america-buy-america-act>.

# Equipment Management: Property Records

Whether you acquired equipment in whole or in part under a federal award, you must maintain property records of each piece of equipment.

Records must include the following for each item of acquired equipment:

* serial number (or other identification number)
* source of funding, including Federal Award Identification Number
* title holder name
* acquisition date
* cost of property
* percentage of federal participation
* location
* condition
* ultimate disposition data, including date of disposal and sale price

# Additional Equipment Management Requirements

Whether you acquired equipment in whole or in part under a federal award, you must also ensure that the following equipment management requirements are met:

* Take a physical inventory of the property and reconcile the property records at least once every two years.
* Develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property, and investigate any loss, damage, or theft.
* Develop adequate maintenance procedures to keep the property in good condition.
* Establish proper sales procedures to ensure the highest possible return if you are authorized or required to sell the property.

For more information on equipment management requirements, refer to 2 CFR 200.313 (<https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1313&rgn=div8>).

# Example: Equipment Budgeting

Let’s go through an example to show how your equipment budget can be included in your grant budget.

## Example: Equipment Costs

First, we identify equipment items and the estimated costs for each item and the number of units you expect to purchase.

Then, we multiply the unit cost by the number of units.

Mechanical Trenching Tool example: $5,250/unit \* 2 units = $10,500

Then add up the costs to calculate the total. This table provides a complete example of estimated equipment costs.

| Item | Unit Cost | Number of Units | Estimated Costs |
| --- | --- | --- | --- |
| Mechanical Trenching Tool | $5,250 | 2 | $10,500 |
| Sampling Boast | $9,250 | 1 | $9,250 |
| Portable Aquifer Detector | $6,100 | 5 | $30,500 |
| Total |  |  | $50,250 |

# Supply Expenses

Supplies are tangible personal property with a per item acquisition cost of less than $5,000.

Supplies may be purchased without meeting competitive procurement requirements under micro-purchase procedures found in 2 CFR 200.320(a) <https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1320&rgn=div8>.

Additional information regarding micro-purchase procedures and adjustments to the threshold can be found in EPA’s Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements (<https://www.epa.gov/grants/best-practice-guide-procuring-services-supplies-and-equipment-under-epa-assistance-agreements>).

Electronics and computing devices may be classified as supplies as long as they cost under $5,000.

Organizations may have their own thresholds and/or definitions for supplies as long as there is a written policy.

# Supply Budget Details

In your budget narrative, you must provide a brief explanation of why the proposed supplies are necessary for the project.

Costs should be categorized by major supply categories (office supplies, computing devices, monitoring equipment, etc.) and include the estimated cost by category.

# Example: Supply Budgeting

Let’s go through an example to show how your supply budget can be included in your grant budget.

Identify supply items and their estimated cost, then add up the supply costs to calculate the total. This table provides an example of estimated costs for supplies.

| Supply Category | Item | Estimated Cost |
| --- | --- | --- |
| Field Supplies | Peristaltic Pump | $3,100 |
| Computing Device | Laptop Computer | $1,800 |
| Sampling Supplies | Water Sampling Kit | $4,900 |
| Testing Supplies | PVC Gloves, pack of 1,000 | $250 |
| Total |  | $10,050 |

# Contractual Costs

Let’s review costs associated with contractual services (including those provided by individual consultants).

# Contractual Expenses

Contractual services are those services to be carried out by an individual or organization, other than the recipient, that establish a contractual relationship.

All contractual services are subject to procurement contracts. Under procurement contracts, organizations may acquire property.

EPA regulations may establish unique contracting requirements for select programs (for example, Superfund). Contact your GS to determine if any special rules apply under your grant.

Service contracts in foreign countries require EPA approval.

# Contractual Cost Details

You must provide a brief explanation of why the contractual costs are appropriate for the project in your budget narrative and work plan.

For each contractual cost, be sure your budget narrative includes the following:

* description of the scope of work
* duration
* procurement method

For more information on procurement procedures, view the EPA’s Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements (<https://www.epa.gov/grants/best-practice-guide-procuring-services-supplies-and-equipment-under-epa-assistance>).

# Naming Contractors

Naming a contractor in your proposal as a “partner” does not itself justify a sole source award due to ethics restrictions.

The EPA strongly discourages applicants naming contractors in their applications.

If you name a contractor (including a consultant) in your work plan, EPA may inquire whether you have complied with 2 CFR Part 200 Procurement Standards (2 CFR 200.317 through 200.326) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.317>) unless you have already described the process you’ve followed to select the contractor.

EPA personnel cannot make recommendations for potential contractors.

# Required Contracting Procedures

In accordance with the Uniform Grant Guidance (UGG) (<https://www.ecfr.gov/cgi-bin/text-idx?SID=9753a50d824a942cb367a62721b97431&mc=true&node=pt2.1.200&rgn=div5#se2.1.200_123>), competitive bidding is required for contracting services, unless due to a patent, copyright, equipment maintenance agreement with the original manufacturer, or other similar reason the required service is available from only one firm.

Exceptions can be made in the case of an emergency (e.g., a natural disaster).

You may acquire goods and services costing less than the micro-purchase threshold of $10,000 as long as the price is reasonable and equitably distributed among qualified sources.

For services that cost more than the micro-purchase threshold but less than the 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>), you may use 2 CFR 200.320(b) (<https://www.ecfr.gov/cgi-bin/text-idx?SID=df81fa9d321587330f79cab4827d49fb&mc=true&node=se2.1.200_1320&rgn=div8>) small purchase procedures and solicit offers from at least three sources, taking Disadvantaged Business Enterprise (DBE) (<https://www.epa.gov/grants/disadvantaged-business-enterprise-program-requirements>) and 40 CFR Part 33 Subpart C (<https://www.ecfr.gov/cgi-bin/text-idx?SID=54273d78c6eecf3a5a899e49c0ae18c1&mc=true&node=sp40.1.33.c&rgn=div6>) considerations into account, without formally advertising or publicizing the contracting opportunity.

# Additional Contracting Considerations

States must follow the same policies and procedures they follow for procurements financed with non-federal funds. Ensure that your organization complies with the requirements in 2 CFR 200.317-326 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=c3b2670cbdf10bcd24cbd1b002462c35&mc=true&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1317>) and EPA’s rules for DBEs in 40 CFR Part 33 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=0ce07f1eb053ffcec40650c44914e901&mc=true&node=pt40.1.33&rgn=div5>).

For more information on procurement procedures, view the EPA’s Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements (<https://www.epa.gov/grants/best-practice-guide-procuring-services-supplies-and-equipment-under-epa-assistance-agreements>).

# Sole Source Considerations

If you intend to enter a sole source contract in excess of the micro-purchase threshold, consider the following:

* Sole source contracts in excess of the micro-purchase threshold should be rare as there are multiple sources for services and products in the commercial marketplace. There is a difference between “best” and “only” and justifications based on “unique qualifications” are not persuasive.
* Competition is required for commercially available items and consulting services (unless due to a patent, copyright, or equipment maintenance agreement with the original manufacturer, or other similar reason, or there is an emergency that precludes competitive bidding). A long-term relationship with a potential source is not an acceptable justification.
* Under 2 CFR 200.323(b) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-D/subject-group-ECFR45ddd4419ad436d/section-200.324>), you must negotiate profit as a separate element of cost for sole source procurements other than micro-purchases.

# Sole Source Justifications

If you choose to enter a sole source contract in excess of the micro-purchase threshold, you must justify the contract. Potential justifications include:

* only one source,
* an emergency (i.e., natural disaster)
* EPA approval, or
* you decided that competition was inadequate after soliciting a number of sources

# Hiring Consultants

A consultant is an individual who is not an employee of your organization but provides services to you under contract. Consultants are subject to your selection, direction, and control.

Consultants must be paid only for the hours that they work on the contract and will not be compensated for more than eight hours of work per day.

# Consultants Compensation Cap

Individual consultants are subject to a compensation cap that cannot be exceeded. The compensation cap applies to only the amount charged to the grant.

Fixed price contracts, contracts, and subcontracts with multi-employee firms for services are not affected by the compensation cap, provided that the contractor selects, directs, and controls the individual employees. Travel and overhead costs for consultants are not included in the cap.

The cap is adjusted annually and limited to the maximum daily rate for a Level IV of the Executive Schedule.

To find the current cap, visit <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>.

# Example: Consulting Costs

Let’s go through an example to show how consultant contracts can be applied to develop the grant budget.

We will assume your organization will hire two individual consultants. We will assume that the current compensation cap is $91.95 per hour based on Level 4 of the Executive Schedule for 2024. See OPM’s fact sheet for guidance on the specific rate calculation.

OPM Fact Sheet: Computing Hourly Rates of Pay Using the 2,087-Hour Divisor: <https://www.opm.gov/policy-data-oversight/pay-leave/pay-administration/fact-sheets/computing-hourly-rates-of-pay-using-the-2087-hour-divisor/>.

Identify the consultant type, rate per hour, the compensation cap, and number of hours that the consultant will work. If the consultants’ hourly rates are more than the compensation cap, you may only charge the grant up to the compensation cap amount.

Multiply the consultant’s hourly rate (or compensation cap) by the number of hours to find the cost of each consultant.

Soil Erosion Consultant example: $91.95/hr \* 400 hours = $36,780

Finally, we add up all consultant contract costs to get the total consultant cost. The following table provides a complete example for calculating consultant costs.

| Consultant Type | Rate per Hour | Compensation Cap | Number of Hours | Consultant Cost |
| --- | --- | --- | --- | --- |
| Soil Erosion Consultant | $150 | $91.95 | 400 | $36,780 |
| Geographic Information System Specialist | $75 | $91.95 | 100 | $7,500 |
| Total |  |  |  | $44,280 |

# Contractual Costs Incurred at Events

Costs associated with contracted services at conferences, meetings, workshops, and similar events include, but are not limited to:

* speaker fees
* stand-alone contracts for audio-visual services
* hired transportation services

Facility rental costs are classified as “other” and may include audio-visual and catering services.

## Refreshments:

Meals and refreshments procured from caterers that are separate from facility rental charges should be classified as “contractual.” The costs of meals and light refreshments for conferences are allowable if the work continues during the meal, unless expressly restricted.

All meals and light refreshments require prior EPA approval, unless explicitly described in the approved scope of work.

EPA funds may not be used for any portion of an event where alcohol is served. Your PO can answer questions about allowability of refreshments. Refer to the Guidance Document on Selected Items (<https://www.epa.gov/grants/rain-2018-g01-r>) for more information on refreshments.

# Example: Contractual Costs for Events

Let's go through an example of how event contracts can be incorporated into a grant budget.

We will assume your training event will require contracts for the speaker, audio-visual services, and refreshments contracted from caterers.

Identify event items and estimated costs, then add up the costs to calculate the total.

| Item | Estimated Cost |
| --- | --- |
| Speaker fee | $1,500 |
| Audio-visual services | $700 |
| Refreshments | $1,000 |
| Total | $3,200 |

# Other Contractual Costs

The following items should also be classified as “contractual”:

* costs for employee training when the training is provided by a third party
* contract costs for hiring trainers to train program participants
* stand-alone equipment maintenance service contracts
* acquisition of large-scale printing services

Travel costs and incentives for participants cannot be classified as “contractual”; instead, they should be classified as “participant support costs.”

Refer to the Other Direct Costs module for more information on participant support costs.

# Example: Contract Costs

Let’s go through an example to show how contracts can be incorporated into the grant budget.

We will assume your organization will hire two individual consultants and hold one event. We will also assume that your organization has contracted a company to perform maintenance on your equipment.

Identify all contracts that your project will require. Then, add up the contract costs you calculated to find the total.

## Individual consultant costs

| Item | Estimated Cost |
| --- | --- |
| Soil Erosion Consultant | $36,780 |
| Geographic Information System Specialist | $7,500 |

## Training event costs

| Item | Estimated Cost |
| --- | --- |
| Speaker fee | $1,500 |
| Audio-visual services | $700 |
| Refreshments | $1,000 |

## Other contracts

| Item | Estimated Cost |
| --- | --- |
| Equipment maintenance contract | $2,700 |

## Total

|  |  |
| --- | --- |
| Total | $50,180 |

# Construction Costs

Now we will review costs associated with construction.

# Overview of Construction Costs

Construction costs are typically only allowable for projects under:

* CERCLA
* Brownfields, and
* Clean Water Act (certain provisions)

Construction costs are only allowable under project grants if the cost is necessary for an activity that is authorized in an EPA statute.

Unless program guidance expressly describes construction as an eligible cost, you should consult with your PO if you anticipate construction costs on your project.

# Examples of Construction Costs

Construction costs include, but are not limited to:

* site preparation
* demolishing and building facilities
* permanent improvements to facilities or other real property
* major renovations of existing facilities
* related architectural or engineering services

# Construction Budget Details

Unless otherwise directed by your PO, costs associated with hiring contractors, which typically includes a general contractor and an architecture/engineering (A/E) firm, should be classified as “contractual.”

When incorporating construction costs into your budget, ensure that your budget detail includes the following:

* list of planned construction contracts
* brief description of the scope of work or services to be provided
* planned duration
* planned procurement method

Construction excludes the cost of land acquisition and off-site improvements. Any land acquisition cost should be classified as “other” and include a line in the budget narrative explaining the purpose of the acquisition.

# Prevailing Wages

Grants under some statutes are subject to Davis-Bacon prevailing wage requirements (<https://www.epa.gov/grants/interim-davis-bacon-act-guidance>).

These statutes include:

* Clean Water State Revolving Fund (CWSRF)
* Drinking Water State Revolving Fund (DWSRF)
* Brownfields Revolving Loan Fund (RLF)
* Brownfields Direct Cleanup (petroleum and hazardous substances)
* Brownfields Assessment (very frequently)
* Select regionally specific programs

The Davis-Bacon Act requires that all contractors and subcontractors performing construction, alteration, and repair under affected programs pay their laborers and mechanics not less than the prevailing wage and fringe benefits for the geographic location.

For more information on prevailing wage requirements, visit the Prevailing Wage Requirements Guidance website (<https://www.epa.gov/grants/interim-davis-bacon-act-guidance>).

# Module Summary

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

# What You Have Learned

In this module, you learned how to include direct costs into work plans, budgets, and budget narratives for EPA assistance agreements for project grants/cooperative agreements and continuing environmental program grants.

We covered how to deal with direct costs such as:

* Personnel and Fringe Benefits
* Travel Costs
* Equipment Costs
* Supply Costs
* Contractual Costs
* Construction 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
* Other Direct Costs
* Indirect Costs

# Thank you!

You have completed this module.

# Helpful 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/>)
* U.S. Office of Personnel Management, Salaries & Wages (<https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>)

## EPA Policy and Guidance

* Budget Guidance (<https://www.epa.gov/grants/rain-2019-g02>)
* EPA’s Financial Assistance Infrastructure Programs Subject to the Build America, Buy America Act (<https://www.epa.gov/grants/epas-financial-assistance-infrastructure-programs-subject-build-america-buy-america-act>)
* Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements (<https://www.epa.gov/grants/best-practice-guide-procuring-services-supplies-and-equipment-under-epa-assistance-agreements>)
* Disadvantaged Business Enterprise (DBE) (<https://www.epa.gov/grants/disadvantaged-business-enterprise-program-requirements>)
* Selected Items of Cost Guidance (<https://www.epa.gov/grants/rain-2018-g01-r>)
* EPA’s Davis-Bacon and Related Acts (DBRA) (<https://www.epa.gov/grants/davis-bacon-and-related-acts-dbra>)

## Regulations

* Uniform Grants Guidance (UGG) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#_top>)
* 2 CFR 200.1 Definitions (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.1>)
* Equipment Costs: 2 CFR 200.313 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1313>) and CFR 200.439 (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&n=pt2.1.200&r=PART&ty=HTML#se2.1.200_1439>)
* Procurement Standards: 2 CFR 200.317-326 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.317>)
* Cost Principles: 2 CFR 200 Subpart E (<https://www.ecfr.gov/current/title-2/part-200/subpart-e>)
* Reasonable Costs: 2 CFR 200.404 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E#200.404>)
* Contingency Provisions: 2 CFR 200.433 (<https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1433&rgn=div8>)
* Participation in DBE: 40 CFR Part 33 (<https://www.ecfr.gov/current/title-40/chapter-I/subchapter-B/part-33>)
* Good Faith Efforts: 40 CFR Part 33 Subpart C (<https://www.ecfr.gov/current/title-40/chapter-I/subchapter-B/part-33/subpart-C>)
* State and Local Assistance: 40 CFR Part 35 (<https://www.ecfr.gov/current/title-40/chapter-I/subchapter-B/part-35>)

# 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