Proposal Budgeting

The Magi Group, LLC
OPGS Grant Writing Class

Class Objectives

- To understand the components of a program/project budget

- To understand how to calculate indirect and fringe rates

- To understand the basics of a organizational budget

- To understand the financial documents required from funders

What is the Budget Section?

The proposal's budget section has two components:

1. Budget

2. Budget justification

The budget presents each line item; the justification explains why each item is necessary for the project

Each section must provide sufficient detail or you risk not getting funded. More detail is almost always better than less. It shows the funder that you have really thought through the process and are not trying to get money for unclear purposes.

What is the Budget?

- The expenses you anticipate to incur for a specified period of time, as well as earned income that the project will generate over that period of time.

- The budget is the financial picture of the program/project/organization.

- The organization's commitment to the grant request from the standpoint of *both* cash and in-kind services.

- The budget answers:
  - What personnel will be expending effort on this project?
  - What will I need to spend in order to accomplish the goals and objectives?

Budget Principles

Budgets for federal contracts and grants should be prepared in accordance with guidelines incorporated with 2CFR 220 (formerly Office of Management and Budget Circular A-21)

- **Reasonable** - costs a prudent person would have incurred

- **Allowable** - costs are allocable, reasonable and not specifically excluded

- **Allocable** - costs directly benefit the project to which they are charged and are in proportion to the benefit received by the project

Reasonable

"A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made"

- A person in their right mind would make a similar purchase under the same circumstance.

- It is necessary for the performance of the project

- The incurrence of the cost is consistent with established policies and practices within your organization

Allowable

"The tests of allowability of costs under these principles are:

(a) they must be reasonable;

(b) they must be allocable to sponsored agreements under the principles and methods provided herein;

(c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and

(d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Allocable

"A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship."

- The cost provides a sole benefit to the project;
- Benefits the project and other work proportions that can be readily estimated;
- Its is necessary to the overall operation (i.e., an indirect cost).

What Should a Budget Do?

- Show how the funders resources will be used on the needs outlined in your program narrative.

- Show how your budget is reasonable and consistent with the needs you have outlined in your program narrative.

- Detail the costs of your project

Budget Development Process

1. Identify the total cost of the project.

2. Arrange items by category, timeframe, and anticipated funding source.

3. Enter the budgetary information in the format requested by the funder.

Identify the Total Project Cost

Review each section of the narrative and brainstorm all anticipated project costs.

1. Breakdown the project into phases. (Use your work plan as a guide)
2. Determine milestones, amounts of work, and materials.
3. Determine fixed costs. (Costs that do not fluctuate each month)
4. Determine variable costs (Costs that change each month)

Arrange Items by Category

- Revenue
  - Product and Service Sales
  - Contract Revenues
  - Internal Chargeback
  - Facilities Use
  - Program Income
  - Donations and Contributions
  - In-kind

- Expenses
  - Personnel
  - Other Direct Cost (ODC)
  - Professional/Contractual Services
  - Indirect expenses/Facilities and Administrative (F&A) expenses

Arrange Items by Category (Personnel)

- This category captures the personnel costs required to perform the project.

- Personnel generally only includes the project staff who are employees of the applicant organization.

- All personnel should be listed by title, with roles directly related to the technical and professional aspects of the project.

- It should include the personnel's bases annual salary and FTE equivalency or percentage of effort.

Arrange Items by Category (Personnel - Fringe)

Fringe is non-wage compensations provided to employees in addition to their normal wages or salaries which may include:

- Vacation and sick leave
- FICA - Social Security (12.3%) and Medicare (2.9%)
- Local, State, and Federal taxes
- Group insurance (medical, life, dental, vision)
- Disability income protection
- Retirement benefits
- Tuition reimbursement
- Daycare

If the rate exceeds 35%,you need to provide a listing of the benefits included

Arrange Items by Category (Other Direct Costs)

Direct costs are non-personnel expenses you would not incur if you did not do the project.

- Office Supplies – copier, software, bulk mailing/postage,
- Communications/Marketing – newsletters, brochures, fliers, printing
- Meeting Expenses – space, audio/video, food, guest speakers, etc.
- Telephone – commercial carrier, long-distance, cell phone, fax
- Equipment – include accessories needed to make it operable, installation fees, maintenance, delivery costs, insurance, and taxes
- Travel – mileage, parking, per diem, and air/rail
- Evaluation – survey design and development, data analysis, focus group costs, participant stipends, etc.
- Project Space – rental/mortgage of programmatic space

Arrange Items by Category (Professional and Contractual Services)

Represents fees or honoraria paid to individuals for a specific service provided based on an agreed per diem rate such as:

- Consultants – according to IRS Revenue Ruling 87-41 (20 criteria)
- Subcontracts
- Contracted services – i.e. web development/maintenance, data analysis, drug testing, etc.

Facilities and Administration/Indirect Rate

- Budgetary items that might be included in overhead
  - Facility Rent (not including programmatic space)
  - Utilities (Electricity, water, gas, phone, etc)
  - Executive Management
  - Human Resources
  - Fiscal/Accounting
  - Administrative Assistance/Reception
  - Maintenance
  - Legal
  - Management Information Services (MIS)/Information Technology (IT)
  - Insurances (general liability, Directors & Officers, automotive, etc)
  - Security
  - Depreciation
  - General office supplies (not programmatic)
  - Subscriptions and memberships

Arrange Items by Category

- Federal Direct Budget Line Items
  - Personnel
  - Fringe Benefits
  - Travel
  - Equipment (Item should exceed $5,000)
  - Supplies
  - Contractual
  - Construction
  - Other

Budget Justification

- A budget justification is a narrative explanation of each of the components of the budget, which "justifies" the cost in terms of the proposed work.

- The explanations should focus on how each budget item is required to achieve the aims of the project and how the estimated costs in the budget were calculated.

- When a detailed budget is submitted, all items in the budget should be justified

Budget Justification - Personnel

- **Name** of the individual, or TBA (to-be-appointed) for roles not yet filled

- **Role title on this project** The role title should reflect what the individual is doing in terms of the work of the project – not any other role

- **Amount of effort being devoted to this project** (in percent of effort for most proposals, though some federal projects may ask for months).

- A brief (one or two sentence) **description of the role responsibilities** in relation to the specific aims of the project.

Budget Justification - Travel

- Explain the purpose of the travel in terms of the project goals.

- Specify the number of trips and destinations anticipated and the number of individuals traveling. Explain how the costs were estimated. (For example, $X roundtrip airfare + $Y lodging for # of nights, + $Z per diem for # of days.)

- Use the most recent Federal Per Diem when calculating lodging and per diem. (*www.gsa.gov/**perdiem***)

Budget Justification - Equipment

- Only items of equipment that meet the criteria of "capital equipment" should be budgeted in this category. (*capital equipment is defined as durable goods with a purchase price of at least $5,000 per item and a useful life of at least one year*.)

- Specify the type of equipment, and if known, the model and vendor name. Explain how this equipment will be used in the project and why it is necessary to purchase equipment dedicated to this project.

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Budget Justification - Supplies

- All non-permanent, disposable supplies such as office supplies, computer supplies and software fall into this category.

- Small equipment purchases costing less than $5,000 per item should also be included in the supplies category.

- Provide a list of the types of supplies needed on the project and explain how the costs were estimated

- You did not need to be as specific as 500 paper clips, 25 pens, etc. However, cover the overall categories

Budget Justification - Contractual

- **Consultants/Professional Services** - Provide the name, institution, and an explanation of the area of expertise that will provided to the project. If a consulting fee is to be paid, explain how it was calculated (for example, $X/day x # of days). The rate may be calculated on an hourly or daily basis, or may be based on completion of a task or milestone.

- **Subcontracts** – the budget justification should state the name(s) of the subcontracting organization(s) and include a brief justification for subcontracting to each entity by explaining the project goals involved in their work. The specific items in the subrecipient budget(s) should *not* be explained here.

Enter Budgetary Information into Requested Format

1. Use the format designated by the funder, if available.

2. Use an Excel format!!!!!

3. Use a format that shows how you calculated costs.

4. Detail your costs with actual numbers. Limit use of guesstimates!!!!! (Rounded numbers scream guesstimates)

What if I Don't Know the Amount to Request?

1. Review listing of previously funded projects/awards.

2. Review the funding agency's annual report.

3. Review the foundation's 990.

4. Review the agency budget for the previous year.

5. Ask fellow nonprofit organizations.

6. Make a Freedom of Information Act request (FOIA)

Budget Musts!!!!

1. Check with the agency to see if they have suggested/required budget categories that they want you to use. Make sure that all budget items meet the funding agency's requirements. If not, explain how they will get paid for.

2. Focus on the cost-benefit ratio. Clarify how grant dollars will be maximized, how the grant will leverage other funding, and how the benefits will be long-term.

3. Budget line items should reflect the values of your organization. For example, if working with individuals with an addiction, then hiring individuals with first-hand experience for entry level positions might make more sense than staffing the project only with more expensive licensed therapists.

4. Check for consistency between the project description, budget narration, and budget line items. At least one other person close to the project look over the package to ensure that nothing has been left out, and that the budget accurately reflects the description of the project

5. Grant experts recommend that budgets aim for no more than 35%-40% personnel costs, with 60% -65% for direct program support.

Budget Musts!!!!

6. Do not include a "miscellaneous" budget category. Small expenses should properly be allocated to a similarly appropriate category.

7. For staff, identify the percentage of time that each individual will spend on this particular project and pro-rate the costs appropriately. If a position is 100% covered by another funder, then a supplemental percentage of this position cannot be charged to a different funder. (Supplanting)

8. Use only whole numbers (no cents) with proper formatting: $1,270 (not 1270).

9. Beware of including minimal costs for letterhead, postage, photocopying, and utilities, if not essential to project operations. The funder might perceive these expenses as part of normal operating costs and view relatively trivial line items as artificial budget inflation.

10. Costs should be in reasonable proportion to the outcomes that you anticipate. If your costs will be prohibitive, scale back your plans or adjust them to remove the least cost-effective expenditures. Verify salaries, mileage, travel, etc with industry standards.

QUESTIONS?