

Budget Narrative Guidance

A budget estimate and budget narrative for the project are required. The information in the budget narrative must correspond to **Section B of the SF-424A**. All budgeted costs, including any costs that will be paid by the applicant or contributed by third-parties, must comply with the cost principles of 2 CFR Part 200, Subpart E - Cost Principles and be:

- allowable (§200.403 Factors affecting allowability of costs),
- allocable to the agreement (§200.405 Allocable costs) and
- reasonable in amount (§200.404 Reasonable costs).

SECTION B – BUDGET CATEGORIES	
6. Object Class Category*	
a.	Personnel
b.	Fringe Benefits
c.	Travel
d.	Equipment
e.	Supplies
f.	Contractual
g.	Construction
h.	Other Direct Costs
i	Total Direct Costs (<i>sum 6a-6h</i>)
j.	Indirect Costs
k.	TOTALS (<i>sum 6i and 6j</i>)

**Other than personnel and fringe benefits costs, all construction-related costs should be included under Object Class Category 6g., Construction.*

A thorough budget narrative is mandatory and will aid the administrative review and processing of a recommended award. Amounts included in a budget and budget narrative are estimates; in the event of an award, payments will be based on actual expenditures. The Budget Detail and Narrative template (**Attachment A**) is a suggested format to present the breakdown of estimated costs, by category, needed to accomplish project activities. The budget narrative provides a discussion of, or explanation for, items included in the budget proposal. The following is guidance for use in preparing a thorough budget narrative (**Attachment B**).

*Cost-share instructions (if applicable): The budget must include at least the minimum Federal to non-Federal required cost share. Cost share encompasses all contributions to the project incurred and paid for during the project. This includes payments for personnel, supplies, equipment, activities and items necessary for the project. In-kind cost share encompasses all third party contributions to the project that do not involve a payment or reimbursement and represent donated items or services that are necessary to the performance of the project. This includes volunteer personnel hours, donated existing equipment, donated existing supplies, etc.

The types of information to describe in the budget narrative include, but are not limited to, those listed in the following subsections:

a. Personnel

This category includes salaries and wages of employees of the applicant organization that will be working directly on the project. Recommend reviewing §200.430 Compensation - personal services for more information on the specific requirements regarding compensation costs, including the Standards for Documentation of Personnel Expenses at §200.430(i).

Generally, salaries of administrative and/or clerical personnel are included as a portion of the stated indirect costs. If these salaries can be adequately documented as direct costs, they can be included in this section; however, a justification should be included in the budget narrative.

Narrative: For key personnel such as the project manager or principal investigator, identify the name and position/title. Other personnel should be identified by position only. For all positions, identify the project tasks that will be performed. Compensation rates can be expressed as hourly rates and number of hours or annual salary and percentage effort that will be contributed to each task but must be consistent with the applicant organization's accounting and timekeeping policies. Include estimated hours for compliance with reporting requirements, including the final project report and evaluation. For multi-year projects, identify the level of effort anticipated for each budget year and any estimates increases in compensation rates. Within the budget narrative, provide a certification that the labor rates included in the budget proposal represent the actual labor rates of the identified personnel/positions and are consistently applied to Federal and non-Federal activities. Note: The annual/hourly labor rate must not include fringe benefits.

Examples:

Hourly rate: (Position) will assist the project manager in the performance of all tasks for each budget year as described below. The hourly rate for year two includes a 3% increase which is the average annual increase in compensation for all employees. The hourly rate is based on the average of all personnel occupying this position. Compensation rates are consistently applied to Federal and non-Federal activities.

Task 1:	50 hrs Y1 x \$25/hr + 0 hrs Y2 x \$26/hr =	\$1,250
Task 2:	80 hrs Y1 x \$25/hr + 100 hrs Y2 x \$26/hr =	\$4,600
Task 3:	80 hrs Y1 x \$25/hr + 80 hrs Y2 x \$26/hr =	\$4,080
Task 4:	80 hrs Y1 x \$25/hr + 110 hrs Y2 x \$26/hr =	\$4,860
Total:	\$7,250 Y1	\$7,540 Y2 \$14,790

Percentage: (Name, title) will be the project manager and responsible for the day to day direction of the project, participate in the derivation and culture of invasive mussel cells (Task 1), and perform most molecular biology procedures (Tasks 2-4). His salary is \$71,400 for both budget years and it is anticipated that he will spend 40% of his time on the project in Year one (\$28,560) and 60% during Year two (\$42,840), approximately \$71,480 for the entire project period. The budgeted rates represent the actual labor rates for the identified personnel and positions and are consistently applied to Federal and non-Federal activities.

b. Fringe Benefits

Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans. Fringe costs should also include employer contributions required by law such as payroll taxes such as FICA, unemployment, and workers compensation. Fringe does **not** include federal income taxes, employee portion FICA, or other such costs. Recommend reviewing §200.431 *Compensation - fringe benefits* for more information on the allowability and allocability of fringe benefits. Note: *Car allowances and cars furnished to employees for personal and work use are unallowable as a fringe benefit, regardless of whether the costs is reported as taxable income, and must be excluded from fringe benefit rates.*

Narrative: Fringe benefits can be expressed as an hourly rate or percentage of personnel costs. In the narrative, identify the fringe benefit rates/amounts for each position. If the fringe benefit rate is less than 35% of the estimated employee compensation, no additional information is necessary. If the fringe benefit rate is more than 35%, provide a description and breakdown of the benefits. If the rate is established within a negotiated indirect cost rate agreement (NICRA), provide a copy of the agreement with the application. Note: Do not combine the fringe benefit costs with direct salaries and wages in the personnel category.

Examples:

Hourly amount (less than 35% of compensation): *Fringe benefits are based on hours for each staff member and include benefits and required taxes paid for each position. Fringe rates have been computed at \$8.55 per hour for the Director and \$6.97 per hour for the Project Coordinator and are applied to the 475 and 275 hour estimates for each position.*

Percentage rate: *The City's fringe benefits costs are estimated at 50% of employee compensation costs and consists of FICA (8%), unemployment insurance (6%) workers compensation (1%), medical and dental (18%), retirement (3%) and annual/sick leave/holidays (14%).*

NICRA: *agreement provided, which shows the appropriate fringe benefit rates for each position.*

c. Travel

Travel costs are expenses incurred by personnel in the performance of project activities. Costs can be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided that the method used is applied to the entire trip and not to selected days of the trip. All charges must be consistent with those normally allowed under similar circumstances for non-Federally funded activities and any established travel policies. Recommend reviewing §200.475 *Travel costs* for more information.

Narrative: Provide a narrative describing any travel employees are anticipated to perform. Include the purpose of the travel and how it relates to project tasks, the origin and destination of

the trip, number of personnel traveling, length of stay, and all travel costs including airfare, per diem, lodging, transportation, and miscellaneous travel expenses. Identify the basis for rates used, (e.g., GSA Per Diem Rates, published prices) and the total of each planned trip. If travel details are unknown, then the basis for proposed costs should be explained (i.e., historical information).

Example:

The budget includes \$800 in estimated travel costs for the principal investigator to travel to Denver for the required project presentation. Airfare is estimated at \$345 based on published prices. Rental car costs are estimated at \$146 based on a quote from a rental car company at the airport. Lodging is estimated at \$195 for one night and a per diem of \$57/day for meals and incidentals for two days of travel. Lodging and per diem are based on GSA rates for Denver/Aurora geographic area.

The budget includes \$1,100 in travel costs for the project facilitator to travel to stakeholder meetings in the watershed. The number of meetings and locations are not known at this time, but the estimate is based on travel costs for 10 meetings with an estimated 100mi roundtrip for each meeting ($1000 \text{ mi} \times 0.57/\text{mi} = \570). One or more meetings may also require an overnight stay so the estimate includes 2 nights lodging at \$150/night (\$300) and per diem for 4 days ($\$56.00 \times 4 = \224). Lodging and per diem rates are based on GSA rates for the Durango, CO geographic area.

d. Equipment

Equipment is defined in §200.1 as tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the applicant organization for financial statement purposes, or \$5,000. Recommend reviewing §200.439 Equipment and other capital expenditures for additional information on the allowability of equipment costs and §200.313 Equipment for information regarding the title, use, management and disposition requirements for equipment acquired under a Federal award.

Narrative: If equipment will be purchased, itemize all equipment valued at or greater than the applicant organization's capitalization threshold for financial statement purposes. If the organization's capitalization threshold is greater than \$5,000, identify all equipment valued at or greater than \$5,000. For each item, identify why it is needed for the completion of the project and how the equipment was priced (published price, quote, etc.). Include in the narrative a comparison of rental and/or lease costs over the purchase of the equipment item. Note: Do not include equipment that will be purchased and/or installed as part of a construction-related activity; this should be included under Construction costs.

Example:

This project includes the production of lines of cultured cells from invasive mussel species, and long-term cell culture success is heavily reliant on storage of cells and reagents at ultracold temperatures. The requested new freezer will be used for both primary and back-up storage of cells and reagents to ensure that ultracold storage continues uninterrupted in

the event of equipment failure. The \$10,000 estimate is based on the published price for a Thermo Scientific Revco RLE Series Ultra-low Freezer. Rental cost of similar freezers range from \$475-\$530 per month, or approximately \$18,000 over the term of the agreement.

e. Supplies

Supplies are defined in §200.1 as all tangible personal property other than those described in the definition of equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the applicant's organization for financial statement purposes or \$5,000, regardless of the length of its useful life. Recommend reviewing §200.453 Materials and Supplies Costs, Including the Costs of Computing Devices, regarding the allowability of costs. Supply items must be direct costs to the project and not duplicative of supply costs in the indirect rate. For post-award requirements regarding supplies, recommend reviewing §200.314 Supplies. For financial management requirements related to supplies, recommend reviewing §200.302(b)(4).

Narrative: List all expendable supplies, noting their purpose in the project and the basis of cost (e.g., vendor quotes, catalogue prices, prior invoices, etc.). For each item, provide the estimated unit cost, quantity, and total cost. General categories may be used, but if a category is viewed as too general or the associated amount is too high, further itemization may be requested.

Example:	Pressure gage \$102/ea. x 2ea =	\$204
	Compression tubing \$20/lf. x 10lf =	\$200
	Peristaltic pump \$3,180/ea. x 1ea =	\$3,180
	<u>Instrument consumables \$1,500 (1s)</u>	<u>\$1,500</u>
	Total	\$5,084

The pressure gage and tubing to complete the column tests in Task 1. The pump will be used to load and regenerate columns (Tasks 1, 3, 5) and the instrument consumables will be used for the analytical analyses identified in Tasks 1-6. The Instrument consumables were estimated using actual costs from a previous project and the other items were estimated using vendor estimates.

f. Contractual

Include all contracts and subawards. Per §200.1, a contract means, for the purpose of Federal financial assistance, a legal instrument by which a recipient or subrecipient purchases property or services needed to carry out the project or program under a Federal award. The term as used in this part does not include a legal instrument, even if the non-Federal entity considers it a contract when the substance of the transaction meets the definition of a subaward.

For additional information on subrecipient and contractor determinations, see §200.331 Subrecipient and contractor determinations. Recommend reviewing §200.459 Professional service costs for information regarding the allowability of contractual costs.

Note: Do not include equipment that will be purchased and/or installed as part of a construction-related activity; this should be included under Construction costs.

Contract Narrative: For each contract, regardless of dollar value, describe the services to be obtained and the applicability or necessity of each to the project. Identify the total estimated cost and the basis(es) used to develop the estimate. For each contract with an estimated amount meeting or exceeding \$250,000 or represents 35% or more of the total project cost, provide a separate detailed description of the estimated costs. A detailed estimate can be included with the application in lieu of a description. For contracts with an estimated cost equal to or greater than the micro-purchase threshold (currently \$10,000), identify the anticipated procurement method to be used and the basis of selection.

Note: Only contracts for architectural/engineering services can be awarded using a qualifications-based procurement method. If a qualifications-based procurement method is used, profit must be negotiated as a separate element of the contract price. See §200.318 General procurement standards for additional information regarding procurements, including required contract content. Recommend reviewing §200.319 Competition and §200.320 Methods of procurement to be followed.

Example:	Facilitator	\$150/hr x 75hr =	\$11,250
	Water Quality Consulting	\$40/hr x 50hr =	\$2,000
	Total		\$13,250

Consultants will be hired to assist with facilitation and technical assessments and preplanning activities as needed. We have conducted preliminary price analysis and found average fees for facilitation consultants in the area are \$150 per hour. The estimate would provide 75 hours of facilitation work focused on the development of the strategic plan. Our procurement policies require that we obtain at least three quotes for services and the selection will be based on best value (qualifications and price). We have researched water quality support cost estimates from XXXXX, who maintains a fee for service pricing structure and provides expertise focused on the watershed. Rates for water quality support average \$50 per hour and the project estimate would provide 40 hours of support for pre-planning activities.

Subaward Narrative: If known, identify the recipient of each subaward. Describe the activities to be performed under each subaward, regardless of dollar value, and indicate the applicability or necessity of each to the project. Identify the total estimated cost and the basis(es) used to develop the estimate. For each subaward with an estimated amount meeting or exceeding \$250,000 or representing 35% or more of the total project cost, provide a separate detailed description of the estimated costs. A detailed estimate can be included with the application in lieu of a description. Include any indirect/overhead costs anticipated to be paid and the indirect cost rate used.

Example:

A subaward in the amount of \$8,400 will be made to XXXX non-profit to conduct outreach, facilitate stakeholder meetings, and perform pre-planning activities. The subaward

includes \$5,000 for personnel salary and \$1,050 for fringe benefits. Salary costs are based on the compensation rate for the subrecipient Project Coordinator (\$50/hr. x 100 hours) and a fringe rate of 21%. The subaward also includes \$500 in travel costs for the Project Coordinator to travel to 10 stakeholder meetings. It is estimated that the Project Coordinator will travel approximately 50-100 miles round-trip per meeting at a cost of \$0.57 per mile. The non-profit has a Federal indirect cost rate agreement (attached) and costs are estimated at \$1,850 (\$6,550 x 28%).

g. Construction

Construction costs are costs incurred in the construction, renovation, and/or equipping of a facility or structure. Costs include engineering, design, permitting, demolition, acquisition of materials, and installation of improvements.

Narrative: Identify all construction-related costs other than applicant organization personnel and fringe benefits costs, including, but not limited to, engineering and design, environmental and other regulatory compliance costs, applicant-owned equipment use, rental equipment, construction supplies, equipment that will be purchased and installed, construction contracts, permitting, and environmental compliance. Note: Personnel and fringe benefits costs related to construction should be included in Salaries and Wages and Fringe Benefits costs, as applicable.

- **Equipment use.** If equipment owned by the applicant is proposed for use under the project, provide the use rates and hours for each piece of equipment owned and budgeted. These should be ownership rates developed by the recipient for each piece of equipment (do not include operator costs). If these rates are not available, the U.S. Army Corps of Engineer's recommended equipment rates for the region are acceptable. Rates for each region can be found at EP1110-1-8 Construction Equipment Ownership and Operating Expense Schedule.

Example:

JCB Excavator	\$46.42/hr x 168hr =	\$7,799
CAT 320C Excavator	\$46.42/hr x 145hr =	\$6,731
John Deere 690 Excavator	\$56.34/hr x 66hr =	\$3,718
CAT D7 Dozer	\$86.88/hr x 169hr =	\$14,683
IHC TD-IS Dozer	\$67.12/hr x 112hr =	\$7,517
Total		\$40,448

The District owns all the necessary equipment and machinery that will be required for this project. The hourly rates are the rates established by the United States Army Corps of Engineers within the Construction Equipment Ownership and Expense Schedule for the Region. Estimated number of project hours for each machine were extrapolated using actual numbers and data from similar sized projects the District has completed in the past.

- **Construction materials.** Identify any construction materials and non-movable equipment that will be purchased from a vendor. Include estimated purchase price, quantity, and total cost.

Example:

27" PVC Pipe	\$26.49	1,479	linear feet	\$39,179
24" PVC Pipe	\$20.42	2,703	linear feet	\$55,195
27 X 24 reducer	\$278.23	1	each	\$278
24 X 21 reducer	\$185.59	1	each	\$186
27 X 10 Turnout	\$970.76	2	each	\$971
24 X 10 Turnout	\$382.89	1	each	\$383
Total				\$96,192

All the materials and supplies needed for the project are listed above. The supplies are itemized by major category, unit price, quantity and purpose. All costs were derived from actual product costs or from quotes received on each product within the last 365 days.

- **Contractual services.** For each contract, regardless of dollar value, describe the services to be obtained and the applicability or necessity of each to the project. Identify the total estimated cost and the basis(es) used to develop the estimate. For all construction contracts and each contract with an estimated amount meeting or exceeding \$250,000 or representing 35% or more of the total project cost, provide a separate detailed description of the estimated costs. A detailed estimate can be included with the application in lieu of a description. For contracts with an estimated cost equal to or greater than the micro-purchase threshold (currently \$10,000) identify the procurement method to be used and the basis of selection.

Example:

Principal Engineer	\$250/hr x 460hr =	\$115,000
Construction Manager	\$135/hr x 229hr =	\$30,915
Project Manager	\$150/hr x 327hr =	\$49,050
Senior Engineering Technician	\$105/hr x 224hr =	\$23,520
Senior Construction Inspector	\$86/hr x 957hr =	\$82,302
Total		\$300,787

An engineering services contract will be awarded by the City for final design and engineering, preparation of construction contract bidding documents, and construction oversight and inspection. The principal engineer is anticipated to spend 184 hours on final design, 89 hours on bidding documents, and 187 hours for construction oversight. The construction manager is anticipated to spend 44 hours, 47 hours, and 138 hours on each of the respective tasks, the Project Manager, 183, 44, and 100 hours, the Senior engineering technician 133, 40 and 52, and the Senior Construction Inspector, 30, 27, and 900 hours. The estimate is based on the costs incurred for a previous similar project.

- **Other Construction-related Costs.** Identify any other construction-related costs (e.g., permitting, etc.) and indicate the applicability or necessity of each to the project. Include quantity, unit cost, total cost, and the basis for the estimate. Note: Do not include costs that are anticipated to be paid by a contractor under the terms of the contract. Those items should be included in the contract estimate.

Example:

The budget includes \$3,600 for construction-related permits required by law. The estimate is based on the permitting costs for a similar project completed last year.

h. Other

This category contains items not included in the previous categories, such as third-party in-kind contributions, tuition remission, rental costs, etc. Third-party in-kind contributions are all services and donations made to the project that do not involve a payment or reimbursement and represent donated items or services that are necessary to the performance of the project. This includes services provided by project partners that will not be reimbursed, volunteer hours, donated equipment, donated existing supplies, etc.

Narrative: For all costs other than third-party contributions, list items by type or nature of expense, breaking down costs by cost per unit, quantity, and total cost and identify the basis of cost (quote, invoice, etc.). Describe the necessity of the costs for successful completion of the project and exclude unallowable costs. Recommend reviewing §200.420 through §200.476, General Provisions for Selected Items of Cost.

Example:

The budget estimate includes \$1,200 for rental of a facility for the planned two 2-day public meetings of the watershed group (\$300/day x 4 days). The estimated cost is based on the published rental rate of meeting space at a local community college.

Third-party Contributions Narrative: Describe any third-party services and donations (personnel costs, supplies, etc.), including the name of the contributor as well as any work that will be performed by volunteers. Indicate the applicability or necessity of each to the project and describe the basis(es) of the valuation. All third-party contributions must meet the requirements under §200.306 Cost sharing or matching, including the valuation of the contribution.

Example:

The project budget includes in-kind services from the Conservation District. Two conservation planners will participate in planning meetings and assist with the review of the final plan. The contribution is valued at \$1,650 (35 hours x \$30/hr. + 20% fringe, \$240 in mileage costs, and \$150 overhead/indirect costs). Employee compensation costs are based on the District's compensation schedule for these positions and the actual fringe rate. Travel costs are for mileage to six planning meetings and are estimated at 70 miles per round trip from County offices to the City at \$0.58 per mile. The District does not have

a current Federal indirect cost rate agreement so the de minimis was used to value indirect costs.

i. Indirect Costs

Indirect costs that will be incurred during the development or construction of a project, which will not otherwise be recovered, may be included as part of the applicant's project budget. Show the proposed rate, cost base, and proposed amount for allowable indirect costs based on the applicable cost principles for the recipient's organization as described below. It is not acceptable to simply incorporate indirect rates within other direct cost line items.

Option 1: Show the rate reflected in the most recent Federal indirect cost rate agreement, cost base, and proposed amount for allowable indirect costs. If the applicant has a current Federal negotiated indirect cost rate agreement, it must be included with the application.

Option 2: If the applicant has never received a Federal negotiated indirect cost rate, the budget may include a 10% de minimis rate of modified total direct costs. Per §200.1 Definitions,

Modified Total Direct Cost (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.

For further information on modified total direct costs, refer to §200.414 Indirect Costs.

Option 3: If the applicant does not have a federally approved indirect cost rate agreement and is proposing a rate greater than the 10% de minimis rate, include the computational basis for the indirect expense pool and corresponding allocation base for each rate. Identify the amount of Federal funding that will be used to pay these costs.

Information on "Preparing and Submitting Indirect Cost Proposals" is available from Interior, the National Business Center, and Indirect Costs and Acquisition Audit Services at <https://ibc.doi.gov/ICS/icrna>.

Note: Construction costs are capital expenditures and must be excluded from the indirect costs.

Narrative: Identify whether the applicant has a current Federal negotiated indirect cost agreement. Describe the costs included in the indirect cost base and identify the indirect cost rate used and total costs. Include the amount of Federal funding that will be used to pay indirect costs.

Example:

The District does not have a current Federal negotiated indirect cost rate agreement so indirect costs were calculated using the 10% de minimis rate against MTDC as detailed below. Federal funding will not be used to pay these costs.

Personnel	\$28,000
Fringe Benefits	\$7,000
Travel	\$2,000
Equipment	NA
Supplies	\$5,000
Contractual	\$10,000
Construction	NA
Other Direct Costs	\$1,000
Total	\$53,000 x 10% = \$5,300