AFP Information Exchange

A Step-by-Step Primer on How to Obtain Large Government Grants for Nonprofits (Part 6): The Budget

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A Step-By-Step Primer on How to Obtain Large Government Grants For Nonprofits (Part 6)

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Obtaining Government Grants: Step 6—The Budget

There are many steps to applying for large government grants. Each step is equally important to securing the funding your organization needs for growth. Over the next several months, we are planning to outline, step-by-step, the general process inherent in obtaining these grants. Our hope is that other professionals advising or working within the NPO community will comment and offer their own suggestions or opinions. We believe that such productive dialog will be helpful toward bringing more efficiencies (and money!) to nonprofits. This is the sixth part of this series: The Budget.

This article focuses on the part of the grant application that deals with preparing the grant budget in the format required of the agency's RFP. In step one, you learned how to prove on paper that your organization had the capacity to partner with the Federal government and become a vendor. In step two, you learned how to research to generate support for your grant application. In step three, we discussed how the case for support should be written to align with the Federal agency's objectives for the community. In step four, we focused on writing the application. In step five, we discussed how logic models and program evaluation factor into the application. Here in step six, you will learn what to include in the program or grant budget, and what format is required.

STEP 6. The Budget

Creating a budget is an important component to the grant process and requires critical thought and internal evaluation. This article will touch briefly on three areas: (1) reviewing the framework before creating the budget, (2) creating the budget by addressing the types of costs that should go into the budget, and (3) addressing how to determine whether a cost is reasonable.

We will conclude by briefly highlighting some points and general advice about the budget process.

<u>Budgetary Framework</u>

It is not possible to instruct grant seekers on how to prepare the perfect government budget for your grant because every format for every grant is different. For example, if you are seeking funding for a new charter school, chances are the budget requirements and formats for the City, County, State and Federal grants are all different! That being said, there are some generalities that you can consider regardless of the type of funding you are seeking.

First and foremost, before you begin preparing your budget, you need to review the guidelines of the agency issuing the request for proposal (RFP). As you review the guidelines, here are some questions to think about:

- Is the award a grant or a contract?
- Is there a maximum amount that will be awarded?
- When will the funding be released (and what is the required start and end date of the funding)?
- How long is the performance period?
- Does the agency have specific budget requirements such as limits on the amount of indirect costs they will cover?
- Does the agency have limits for facilities or administrative costs?
- What are the required forms, schedules, cost breakdowns or supplementary financial documents required?
- What format is requested by the agency for your program/project budget?

Additionally, if you are a new applicant to an agency, be sure to attend all training sessions, webinars and instructional meetings. Be prepared by reading the grant application thoroughly and attempting to complete the budget form prior to these sessions, so that you are armed with the most compelling questions for the agency representatives. Even after your budget is created, you may want to revisit this step and confirm you have not missed an important or critical part of the application.

Once you have the guidelines from the RFP, you are ready to begin focusing on your budget.

Creating the Budget

How to create a budget and the relevant analysis differs depending on whether your program exists or not. When creating a budget for an existing program, the process should be relatively straightforward. In that case, all you need to do is add the expenses for additional staff, space, benefits, etc. The budget creation process is a little trickier if you are adding a new program. As such, this part of the article will focus on the considerations you should analyze when creating a new program.

You will want to make sure you have the answers to the overarching questions surrounding the program. Common questions you may ask yourself during this step include:

- What are the program's goals?
- What do you want to accomplish through this program?
- What do you need to succeed as you move forward?

After you have answered these questions, you will next want to analyze the costs that will be included in the budget. There are two types of costs, direct costs and indirect costs.

Direct Costs

Direct costs generally include the following components: (1) personnel related, (2) facility related, (3) furnishings, (4) marketing and advertising, (5) professional development, staff training, and technical assistance, and (6) other expenses. Section J of OMB Circular A21 (2 CFR 220) also describes how these costs should be considered when preparing a grant proposal budget. Aspects of each of these components are illustrated below.

The direct costs that are **Personnel Related** include:

- Salaries that are wages (including vacations, holidays, sick leave, and other excused absences of employees working specifically on objectives of a grant or contract—i.e, direct labor costs).
- "Merit" increases, cost-of-living increases, bonuses, increase in legal minimum wage, and union-management compensation agreements
- Employee fringe benefits allocable on direct labor employees. These include, but are not limited to FICA - 7.65%, State Unemployment

Insurance (S.U.I.), health and dental Insurance, life insurance, retirement, (e.g. 401K), and child care allowances.
- Miscellaneous personnel related expenses, including uniforms and clothing, footwear, tools, safety equipment, hiring costs (related to such things as employment ads, physicals, drug screening, employment verification, license verification, background checks, temporary, part-time or seasonal employees).
- Consultants, contractors and volunteer costs.
- Consultant services contracted to accomplish specific grant/contract objectives.
- Travel of (direct labor) employees.
- Materials, supplies and equipment purchased directly for use on a specific grant or contract.

The direct costs that are **Facility Related** include:

- Communication costs such as long distance telephone calls or telegrams identifiable with a specific award or activity.
- Rent or mortgage payments - prorate as needed and remember to plan for increases
- Utilities including gas, electricity, water, sewer
- Telecommunications: phones, fax, Internet, pagers, cell phones
- Equipment and installation
- Monthly charges

The direct costs that are **Furnishings** include:

- Contracted services (janitorial, snow removal, payroll, window-washing, security, lawn maintenance, etc.)
- Maintenance and cleaning supplies
- Equipment lease fees, maintenance contracts, depreciation, photocopier
- Maintenance, repairs and inspections (elevator, boiler, fire alarms) for equipment and major mechanical systems (plumbing, electric, heating/cooling)

The direct costs that are **Marketing and Advertising** include:

- Ad design and production; displays; brochures and flyers; printing; writing/disseminating press releases and news stories; creating a public relations or recruitment campaign
- Postage, shipping, delivery, courier
- Website

The direct costs that are **Professional development, staff training, technical assistance** include:

- Travel, meeting, conferences
- Special events

Other direct costs that fall under **Other Expenses** include:

- Supplies (consumables) – letterhead, envelopes, text books, paper, toner, etc.
- Office equipment
- Computers, software
- Dues, memberships, subscriptions
- Travel, mileage, parking

Indirect Costs

Indirect costs (sometimes called facilities and administrative (F & A) costs) are those costs that are not classified as direct. Examples of indirect costs include:

- Salaries of administrative and clerical staff providing normal support activities in the organization
- Office supplies including postage
- Local telephone calls
- Photocopying
- Memberships and subscriptions

Making the Budget Reasonable for Grant Purposes

Understanding the difference between direct vs. indirect costs program costs is important because in general, expenses are chargeable as direct costs to program grants. The cost must be:

- **Reasonable**: A prudent person would have purchased this item and paid this price.
- **Allocable**: Expenses can be allocated to the government activity based on benefit derived, cause and effect, or other equitable relationship.
- **Consistently Treated**: Like expenses must be treated the same in similar circumstances.
- **Allowable**: Allowable or not unallowable as specified by sponsor regulations, (A-21, Section J)

Whenever possible, use "fair market value" as the basis for costs. These include but are not necessarily limited to executive and management staff, consultants, accounting, financial audits, insurance, fundraising, evaluation, reports, and front office reception.

How do you know what is reasonable or allowable?

Nonprofits would love to have definitive guidelines about how much is reasonable from the IRS. Unfortunately, the IRS regulations are vague. The IRS simply says that compensation is reasonable if the amount paid would ordinarily be paid for (1) comparable compensation, (2) comparable services, (3) comparable enterprises (whether nonprofit or for profit), and (4) under comparable circumstances.

Comparable compensation. The single most important element in determining whether an employee's compensation is reasonable is comparable compensation data—that is, data about how much compensation is paid by similar organizations for people working in comparable positions. If you are hiring a licensed social worker (LSW), you will need to determine what is the average wage and compensation paid in your area. Use this data in your budget, and provide a reference and link where the data was obtained.

In many cases, the Federal grant instructions will ask you to seek information from a specific source confirming salaries in your area, such as the HUD resident services coordinator grants. For these grants, the agency will provide a link for you to obtain the salary data from Federal databases, and you must use the average salary date from these resources for your budget in order to be competitive. It is helpful to research what other people doing similar jobs for similar organizations are paid. Your non-profit organization is competing for the same pool of talent. Try using

Monster.com or local salary data from sources such as AFP, or your state nonprofit organizations as resources.

Other factors can be considered as well. Depending on the circumstances, these may include:

- Nonprofit's geographic location;
- Economic conditions;
- Employees' duties and past performance history;
- Amount of time the employee spends on the job;
- Compensation history;
- Employees' background, skills, education, and experience;
- Whether the employee has actual written job offers from other organizations; and
- How much other employees at the nonprofit are paid, and the availability of similar services in the nonprofit's geographic area.

Comparable services. In determining whether one person's services are comparable to another's, you should consider such factors as the type of work and skills involved, whether the job is full time or part-time, the size and scope of the organization, the number of employees managed, the budget or assets managed, and whether the person manages multiple functions or departments. An example would be nurse practitioners. What does your state allow? Can nurse practitioners manage your clinic, or must they be supervised directly by a physician? If so, you will have to add the cost of a physician to your budget.

Comparable enterprises. In determining whether another nonprofit (or profit) organization is comparable to your own, you should consider whether it is similar in:

- Size (comparing budget, revenues, number of employees, and persons served) and
- Mission (examining the purpose and benefit of the organization). For example, how does the mission of a private school compare to a homeless shelter or a hospital or an opera house? Try to use the benefit to the broader community when comparing missions.

Comparable circumstances. Consider such circumstances as whether the organization is located in a similar geographic area—for example, whether it is urban or rural, and whether the cost of living is

similar. Most Federal grants allow a modifier for the cost of construction in an urban setting verses a rural location. In many cases, without this modifier, the cost per unit of new construction or cost per program would not fit the defined model of the grant; and would exclude many regions from the competitive process. Make sure to read the grant thoroughly for these modifiers.

For example, is the cost of creating a new charter school in rural Mississippi the same as creating a similar one in downtown Manhattan? If you are uncertain about what regional modifiers to apply to your costs, call your regional agency or Federal delegation for your state for assistance.

General Budget Preparation Advice

When questioned, CEO's and CFO's who are frequently called upon to prepare grant budgets offered this advice:

There must be a balance in our budget between "the request for funds," and "need for the funds."

Put simply, it cannot be a make or break proposition. If you need the money to complete the project, you will probably be rejected. How do you compensate for this?

Build in a contingency plan! Does your organization have a reserve for replacement fund, or an endowment? If so, can it be used, or will the Board allow the organization to use these funds if fundraising efforts are not met?

If not, answer this question as honestly as possible in your case statement: "we need this funding because . . . and if we do not receive it, we will have to . . . ."

With respect to this last bullet point, the response cannot be a "make or break" proposition. If you need the money and without the funds cannot move forward with the project, do not apply (or make sure you have an alternative to consider, such as financing or another grant opportunity). Funders are looking for demonstrated success and do not want to invest in organizations where the risk is great.

With that being said, does that mean they never invest in new ventures? Not necessarily. Yet, if are you going to have to drain your resources and call in all of your favors to make a particular project work, how can you be

sure the project will be a success? Additionally, what will your organization do in the future if a new need arises? Does the long term stability and success of your organization depend on this funding? Can you justify this in writing and with letters of support to substantiate your credibility and solvency in the future?

Balancing the desire of the agency to fund the project over their fear that their investment is an unknown risk is a delicate dance. If the risks are known, then describe them. If they are unknown, then articulate your concerns as simply and clearly as possible, and let the donor or grantor know how to justify them in the evaluation phase.

Conclusion

Creating a budget is a necessary task to any grant application. Taking the time to make the budget realistic and comprehensive has a direct effect on the credibility of your application. Our final advice; read, read, and read the grant again to understand what the funder is asking!

Don't miss our next and final article in this series: Step 7 – Reporting

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About Charlie Vincent, Esq.: Charlie has almost 15 years of marketing and business experience across different sectors in Delaware and Pennsylvania, including strategic business planning and marketing, event planning, and fundraising for non-profits, small businesses, and entrepreneurs. Charlie formed Innovincent LLC in 2014 to help other non-profits, businesses, and individuals with strategic planning, marketing, event planning, and fundraising needs.

About Jonathan Moll, CPA: Ask Jon what drives his energetic and genuine approach to client service and he'll say, "the thrill of providing solutions." However, what separates Jon from the rest is his ability to not only solve clients' problems, but anticipate issues and provide answers even before his clients realize they have a question.