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F402: Fundamentals of Proposal Budgeting

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Learning Objectives:

By the end of this session, participants will...

1. Understand the basic elements that should be included in the budget and budget justifications.

2. Gain knowledge of allowable vs unallowable costs

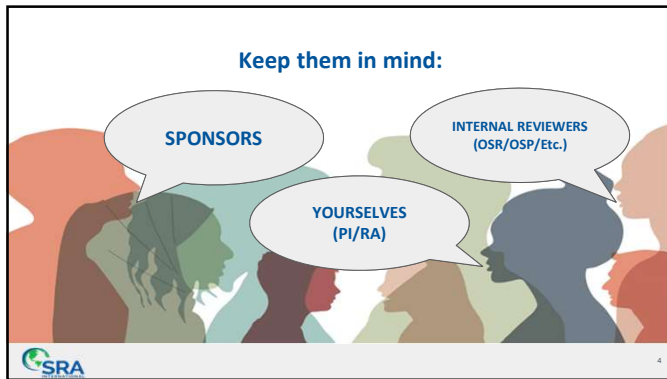3. Ensure successful collaboration with faculty to accurately communicate proposal budget needs.

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Who is your audience?

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Contents of a Budget Plan

A proposal budget plan is a comprehensive document that outlines:

1. How much funding is needed for your project.
2. How the funds will be spent.
3. Why each expense is necessary, and how it supports the project objectives.

It typically includes:

The Budget (Detailed/Itemized or Modular)
The Budget Justification (Narrative Explanation)

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Budget Methods - Data Collection

Zero-Based: Gather data to estimate costs.

Historical: Assess actual costs and spending patterns from a similar project.

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Budget Methods - Submission Formats

Detailed Budget

(e.g. R&R Detailed Budget Form)

Modular

(e.g. PHS 398 Modular Budget Form)

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The Budget Justification

A budget justification is a **narrative that explains the estimated costs outlined in a project budget**. When well done– it demonstrates the budget is **reasonable and necessary**, helping to **prevent potential reductions** during the award process.

The budget justification provides the reviewers, sponsors, and potentially auditors with:
- An explanation of cost estimation methods
- A description of the specific expenses included in broader budget categories (such as "supplies" or "other")
- An explanation of why each cost is essential to conduct the project.

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HANDOUT REVIEW:

Detailed vs Modular Examples of Budgets and Budget Justifications

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Learning Objective #2:

Gain knowledge of allowable vs unallowable costs

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Successful Budgeting Starts with Compliance

- Funding Requirements
- Cost Principles and Considerations
- Allowable Vs. Unallowable Costs
- Cost Types and Expense Categories

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Funding Requirements - FEDERAL, LOCAL & STATE

Federal Grants

Federal
Sponsored funding comes from US federal agencies (e.g. NIH, NSF, DOD, USDA, etc.) These agencies have **policy statement documents** that serve as terms & conditions of the award. **Carefully read NOFOs** for budget criteria. **Look for limits** on expense types, spending caps on certain expenses, and overall funding limits.

Local and State

Local/State
State regulations establish model contract terms for projects funded by state and local agencies and state university systems. **Each FOA and corresponding agency websites** have funding restrictions that tend to supersede standard instructions–**consult with your SPO if terms & conditions differ.** If the funding includes **federal flow-through** dollars, both federal and state agency guidelines will apply.

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Funding Requirements - PRIVATE and INSTITUTIONAL

Private
Private sponsors typically **impose the strictest limitations** on how funds can be used (e.g. **indirect or overhead costs).** Not all specify restrictions in FOAS; thus, check **sponsor's website** and reach out to the established **contact person** in FOA or funding webpage.

Institutional
It is crucial to thoroughly **understand your own institution's policies**, including, cost-sharing requirements, overhead rates (e.g unrecovered indirect approvals), allowable expenses, and any specific guidelines for funding requests, to ensure compliance and feasibility.

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Cost Principles and Considerations

An applicant's budget request is reviewed for compliance with the governing cost principles and other requirements and policies applicable by sponsor, recipient, and award type. Given a **large portion of research funding comes from the federal government and its agencies**, worth covering the four main cost principles established in the Federal Financial Assistance:

- "**Allowable**" means the costs meet the specific requirements set forth by regulations or the award terms.

- "**Allocable**" means the costs are directly related to the project and can be reasonably assigned to it.

- "**Reasonable**" indicates that the costs are in line with what a sensible person would incur under similar conditions.

- "**Consistent**" means that costs are applied uniformly across projects and in accordance with institutional policies and procedures.

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Allowable vs Unallowable Costs

Allowable ✔	Unallowable ✖
Definition: Costs that align with Cost Principles that are necessary, reasonable, and allocable to the project, and comply with grant/contract terms, applicable laws, and regulations	**Definition:** Costs that cannot be charged to the grant/contract, often due to being unreasonable, not allocable, or violating regulations or contract terms. *See Subpart E of the Federal Financial Assistance.*
Examples: Approved Cost Types & Categories that don't exceed in nature or amount to what a "prudent person" would incur.	**Examples:** Fines, penalties, lobbying costs, entertainment, alcohol, donations, advertising and PR, and costs incurred before the project period, and more!

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Cost Types: Direct Costs

DEFINITION	EXAMPLES OF CATEGORIES
By definition in Federal Financial Assistance, "Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be **directly assigned to such activities** relatively easily with a high degree of accuracy."	Salaries and Wages Fringe Benefits Materials and Supplies Equipment Travel Publications Consultants Subawards Patient Care Other Directs (e.g. Animal Care, Equipment Maintenance, Data Management & Sharing Costs, etc)

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Cost Types: Indirect Costs

DEFINITION	EXAMPLES OF CATEGORIES
By definition in Federal Financial Assistance, "Indirect costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and **not readily assignable to the cost objectives** specifically benefited, without effort disproportionate to the results achieved."	Typically included costs are classified under the following IDC categories: Depreciation and use allowances, utilities, general operations and supplies, sponsored projects administration expenses, facilities and maintenance expenses, library expenses, research administration expenses, and student administration and services, etc.

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A Note on Out Years and Inflation

Out Years - Budgets should **reasonably approximate what you intend to spend in the out years** based on the start date of the award. Many sponsors do not have a policy on salary escalation, though it is advisable for applicants to request the actual costs needed for the budget period in the application and to request cost escalations only if the escalation is consistent with institutional policy.

Inflation - Connect with your Institution to **determine reasonable amount of inflation in the out years**. At the program's discretion, 1% - 3% increases are acceptable. In general, budgets shouldn't average over the proposed project period but should reflect the estimated cost by year (including inflation) except when specifically allowed by the agency, e.g.NIH modular proposal.

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COMPLIANCE RESOURCES:

- Office of Management and Budget – Federal Financial Assistance 2 CFR 200
  https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1
- NIH Grants Policy Statement (Current):
  https://grants.nih.gov/policy/nihgps/index.htm
- NIH Agency Application Guidelines
  https://grants.nih.gov/grants/how-to-apply-application-guide.html
- SF424 (R&R) Application and Electronic Submission Information:
  https://grants.nih.gov/grants/funding/424/
- R&R Budget
  https://grants.nih.gov/grants/how-to-apply-application-guide.html#inst
- NIH Modular Research Grant Applications:
  http://grants.nih.gov/grants/funding/modular/modular.htm

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Learning Objective #3:

Ensure successful collaboration with faculty to accurately communicate proposal budget needs.

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Accurate Budgeting Requires Successful Collaboration

- Plan and Outline Budget
- Review Sponsor Guidelines
- Determine the Project Period
- Importance of Relationship Building

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How To Plan and Outline the Budget

- **Consult with the PI:** Kick off the budget prep by meeting with your PI to understand the proposed project. Gather and share any materials you'll need to begin developing the budget, such as:
  - Funding opportunity announcement (FOA)
  - Sponsor guidelines
- **Use a Checklist:** Prepare a Proposal Checklist to organize the proposal preparation process, including budgeting.
- **Outline Budget Categories**: Once the PI clarifies project needs and costs, outline the budget categories and list specific line items. Assess which expenses are allowable and determine the budget categories for each.

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Review Sponsor Guidelines

- **Read All Sponsor Materials Thoroughly:** Review the NOFOS, program guidelines, and sponsor policies to ensure all proposed expenses are allowable and meet any specific requirements

- **Questions When Reviewing Guidelines:** Is there a funding cap? Is it based on total costs (direct + indirect) or direct costs only? Are there specific required expenses? (e.g., travel, reporting obligations) Are certain expenses disallowed? (e.g., PI salary, certain equipment)

- **Use Tools to Stay Organized:** Use the Proposal Checklist as a shared document to help the PI identify key areas, restrictions, and special considerations

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Determine the Project Period

- **Why It Matters:** The project period determines which fringe benefit rates, indirect cost rates, and salary scales to use.

- **Sources of Information:** Some sponsors specify the project period in their NOFO. The PI may have specific timing in mind (seasonal activities, event deadlines, etc.). Project start and end dates can also be driven by sponsor requirements.

- **Typical Start Dates:** Usually 6–9 months after proposal submission, though this varies by sponsor/program; many sponsors have standard due dates posted with earliest start dates available or NOFOs that specify non standard dates.

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Importance of Relationship-Building

Why It Matters: Building strong relationships with Principal Investigators (PIs) is essential when working on budgets for several reasons:

- Better understanding of the projects
- Efficient Collaboration
- Proactive Problem Solving
- Enhances Compliance
- Builds Trust and Reputation
- Supports Long-Term Success

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In Conclusion:

By understanding the elements of the budget and budget justification, and differentiating between allowable vs. unallowable costs, you will ensure this critical component of the proposal is accurate and compliant with sponsor requirements.

Utilization of the tips shared today will lead to successful collaboration with PIs, which is key in capturing the project's financial needs — ultimately supporting a strong, competitive proposal.

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THANK YOU! QUESTIONS?

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