

Interim General Budget Development Guidance for Applicants and Recipients of EPA Financial Assistance

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Introduction

Proper characterization of costs is important for effective management of the Environmental Protection Agency (EPA) financial assistance (grants and cooperative agreements) awards. EPA conducts pre-award cost reviews for all assistance agreements, except those awarded on a fixed amount basis. Correctly characterizing costs will make the review process more efficient for both EPA and recipients. Additionally, properly characterized costs are less likely to be questioned by auditors since many of the rules for expending EPA funds are predicated on the types of costs recipients incur.¹ **It is important for recipients to consult with their EPA Project Officers (PO) and Grant Specialists (GS) when considering incurring costs that seem unusual or are covered by the regulatory requirements described below.**

A list of Acronyms is available in [Appendix 1](#). EPA has provided a sample budget narrative in [Appendix 2](#).

Note: This interim guidance uses the terms “applicant” or “recipient” to refer to the non-Federal entity applying for or receiving Federal funds depending on the context.

Applicability

This interim guidance is a tool that may be used by applicants and recipients of EPA funds when preparing proposed work plans, budgets, and budget narratives for EPA assistance agreements for project grants/cooperative agreements and continuing environmental program (CEP) grants except to the extent cost categories are covered by EPA’s:

[Interim Guidance on Cost Review of Grants/Performance Partnership Grants Awarded under 40 CFR Part 35 Subpart A](#)

[Grants Policy Issuance 13-02: Streamlining Tribal Grants Management \(40 CFR Part 35 Subpart B Programs\)](#).

The interim guidance supplements but not supersedes these Part 35 Subpart A and B guidances.

It is not intended for use on State Clean Water and Drinking Water Revolving Loan Fund capitalization grants.

The interim guidance does not supersede requirements contained in regulations, the terms and conditions of EPA financial assistance agreements, or published EPA policies. Consistent with 2 CFR 200.302(a), it does not require that states alter their internal accounting systems, create crosswalks, or take actions that are otherwise unnecessary to comply with the requirements of the regulation. If a state identifies a conflict between the cost categorization described in the interim guidance and state accounting systems, it should contact EPA’s Grants Management Officer to resolve the matter.

¹ This guidance uses the terms “applicant” or “recipient” interchangeably depending on the context.

I. Factors to Consider for All Cost Categories

A. General Principles for Cost Allowability

1. The general standards for determining allowability are described in the [2 CFR Part 200](#) Uniform Grant Guidance or “UGG” at [2 CFR 200.403](#). Costs must be necessary for the performance of the EPA award and not be prohibited by statute, the [2 CFR Part 200 Subpart E Cost Principles](#), another regulation, program guidance, or the terms of the award.

a. Eligible: A cost is eligible if it is permitted by statute, program guidance, or regulations. For example, land acquisition and construction costs are not eligible training costs as provided at [40 CFR 45.145\(b\)](#). There may be statutory prohibitions or limitations on cost eligibility particularly for administrative costs under EPA assistance programs such as Brownfields at [42 U.S.C. 9604\(k\)](#) or the Clean Water Act section 319 Non-point Source programs at [33 U.S.C. 1329\(h\)\(12\)](#). Some program offices issue guidance or include terms and conditions that make otherwise allowable costs ineligible such as prohibiting recipients from incurring participant support costs (described below) for trainee travel or stipends. It is important for recipients to carefully review the terms of their agreements and program guidance to determine what costs are eligible.

b. Reasonable: A cost is reasonable if it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Factors for determining the reasonableness of costs are set forth at [2 CFR 200.404](#). For example, costs that are not ordinary for performing the scope of work for the agreement are not reasonable. Purchasing vans to transport conference attendees to site visits would not be reasonable while hiring a transportation company to provide a bus and driver for a few days would. Also, salary costs may be questioned as unreasonable under [2 CFR 200.404\(e\)](#) if the recipient compensates employees at a higher rate when their time is charged to EPA grants than for work that is not Federally funded.

c. Allocable: A cost is "allocable" to an assistance agreement for the purposes of [2 CFR 200.405](#) if it benefits the EPA funded project or program and the costs are distributed in reasonable proportion to the benefits or if it is incurred specifically to carry out the project or program. Essentially, to be allocable the cost must be incurred either directly or indirectly to carry out the scope of work. For example, the day to day costs for the operation of a human resources department would not be allocable to the agreement as a direct cost but may be included in the recipient's indirect cost pool.

(1) Indirect costs are allocable to assistance agreements when a Federally approved indirect cost rate is properly distributed to the recipient's base.

Additional information on indirect costs is available in section IX of this Guidance.

(2) Some recipients have multiple sources of funding and must allocate direct costs among activities in proportion to the benefits derived from the costs. These costs are allocated separately from indirect costs and should be included in the appropriate direct cost category.

(a) Examples of direct costs that may be allocated include utilities, cell phone charges, space rental, and general office or laboratory equipment that are not covered by the recipient's indirect rate.

(b) Recipients should have adequate systems in place to properly allocate these types of direct costs and the recipient's budget should reflect the allocations.

d. Allowable: The [UGG](#) identifies certain costs that may not be charged to EPA assistance agreements under any circumstances. Examples include alcoholic beverages ([2 CFR 200.423](#)), interest on borrowed funds ([2 CFR 200.449](#)), and lobbying or litigation ([2 CFR 200.450](#)).

B. Prior Approval of Costs

1. There is a list of items of cost requiring prior EPA approval at [2 CFR 200.407](#), some of which are addressed in this Guidance, as well as guidance for specific items of cost. For example, EPA has prior approval guidance for:

- a. Advertising and public relations;
- b. Advisory Councils;
- c. Entertainment;
- d. Fund raising;
- e. Meals and light refreshments at conferences;
- f. Proposal preparation costs; and,
- g. Participant support costs.

Applicants may refer to EPA's [Guidance on Selected Items of Cost for Recipients](#) and EPA's [Interim Participant Support Cost Guidance](#) for additional information. Recipients should consult with their POs before including any costs requiring prior EPA approval in their work plan or budget narrative.

2. When an applicant's proposed scope of work and/or budget narrative adequately identifies and describes an item of cost requiring prior EPA approval, EPA considers the costs approved when the Award Official signs the agreement unless the terms and conditions of the award provide otherwise. Precise descriptions are necessary. Simply budgeting for an item of cost allowable only with prior EPA approval is not enough. The applicant's budget narrative or scope of work must clearly place EPA on notice that the recipient intends to incur the cost subject to prior EPA approval.

3. Other EPA approvals for items of costs may take place post-award by authorized EPA officials. **Currently, EPA POs do not have authority to make final regulatory determinations for prior approvals specified at [2 CFR 200.407](#) or other provisions of the UGG.** Recipients should consult with their GSs on procedures for obtaining post-award prior approvals from an EPA Grants Management Officer.

C. Pre-Award Costs

1. The allowability of pre-award costs are governed by [2 CFR 200.458](#) and [2 CFR 1500.8](#) unless a program specific regulation (e.g. [40 CFR 35.6275\(b\)](#) for Superfund Cooperative Agreements or [40 CFR 35.4100](#) for Technical Assistance Grants) prohibits or restricts the allowability of pre-award costs.

2. EPA defines pre-award costs as costs incurred prior to the award date, but on or after the start date of the budget/project period. Under EPA's interpretation of [2 CFR 200.309](#), all eligible costs must be incurred during the budget/project period as defined by the start and end date shown on the grant award to receive EPA approval. This policy is implemented in a grant-specific Term and Condition entitled "Pre-award Costs".

3. The budget/project periods must be consistent with that shown in section 17 of the Standard Form 424 ([SF-424](#)) and the Applicant's Workplan.

D. Cost Share (a.k.a. Match)

1. As provided at [2 CFR 200.306\(b\)](#) costs that an applicant intends to count towards meeting a cost share requirement must be necessary and reasonable, allowable, and allocable under the UGG as well as eligible under the EPA assistance program, and included in the EPA approved budget. Absent authority provided by a Federal statute, applicants may not use Federal funds to meet cost share requirements. Applicants must categorize contributions towards cost-shares required by statute, regulation, or the terms of the assistance agreement in the appropriate budget category. Voluntary cost shares must be reflected in the appropriate budget category.

2. In order for cost shares to be allowable, contributions must be verifiable from the applicant's accounting records as required by [2 CFR 200.306\(b\)\(1\)](#). The applicant's records should account for in-kind contributions from non-Federal sources (i.e. personnel, contractual, equipment, supplies, indirect) in the appropriate cost category so that EPA can easily determine allowability. For example, if the applicant does not intend

to charge the EPA assistance agreement for all the time its employees spend working on the EPA assisted project, the applicant may include their salaries or wages in the personnel category for cost share purposes.

3. Volunteer services (e.g. uncompensated services provided by non-employees of the organization) may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program. These volunteer contributions towards cost shares must be included in the “Other” category. These contributions should be valued based on the work the volunteer performs. For example, in a situation in which an applicant intends to count time spent by volunteers performing sampling work towards cost share, the contributions should be valued based on hourly market rates for employees of sampling firms or government employees performing sampling. The volunteers’ time would not be valued based on what they get paid at their place of employment.

4. Applicants may apply costs incurred for facilities, equipment use, and related services (e.g. audio-visual support for a conference) as cost share when the facilities, equipment, and services are used to perform the EPA award. The same costs must not be charged to any other EPA agreement, a financial assistance agreement with another Federal agency, or included in the applicant’s indirect cost rate to qualify as cost share.

5. Voluntary cost shares offered by applicants for competitive assistance agreements must be included in the [“Budget Information for Non-Construction Programs”, Standard Form \(SF\) 424A](#) and are binding on the recipient.

a. EPA program offices that are willing to accept voluntary cost shares will include a notice to that effect in the competition announcement.

b. Voluntary costs shares are a form of leveraging that may only be met with eligible and allowable costs.

c. Some competitive programs encourage applicants to explain how an EPA award can leverage funds from other sources for related activities beyond the scope of work for the award. For example, an EPA grant to clean up a site may leverage funds for low income housing at the site after the cleanup is complete. The funding for the low-income housing is leveraged but is not a cost share because housing is not an eligible cost under the EPA grant. Applicants should not place leveraged funds that are not part of a voluntary cost share in the [SF-424A](#) budget form.

E. EPA In-Kind Assistance

1. An EPA award, at the Agency’s discretion, may include in-kind assistance provided by EPA (including contractor support and purchases or leases of equipment or purchases of supplies), or EPA personnel under Intergovernmental Personnel Act assignments or Interagency Agreements. In-kind assistance that EPA provides is different than in-kind

contributions an applicant contributes or obtains from third parties for the purposes of meeting a cost-share requirement.

2. An applicant may request in-kind assistance or EPA may decide to offer that assistance in lieu of direct financial assistance.
3. These costs should be assigned to the appropriate cost category. For example, if EPA purchases equipment that will be delivered to an applicant as EPA in-kind assistance, the cost for those items would be placed in the equipment category. On the other hand, if EPA provides in-kind technical services through an EPA contractor, the costs would be placed in the contractual category. Only authorized EPA personnel may assign tasks to EPA contractors.
4. Any cost sharing requirements apply to the amount of the EPA in-kind assistance in addition to the EPA funds. Also, applicants may not count the amount of EPA in-kind assistance towards their cost-share.
5. An applicant must acknowledge the amount and purpose of the in-kind assistance by including the estimated amount in the budget request.

F. Pre-Award Budget Revisions

In situations in which changes to an applicant's budget are necessary due to incorrect cost categorization or otherwise, POs and GSs will work with the applicant to document revisions to budgets.

1. The applicant must submit a revised version of Section B "Budget Categories" of the [SF-424A](#), budget narrative, and other budget related documents so that they are consistent with the Approved Budget in the Award Document.
2. For state and tribal non-competitive continuing environmental program grants, "pen and ink" changes to applicant budgets may be acceptable. This means that EPA may be able to make changes to existing applicant forms rather than obtaining new ones, provided such changes meet certain conditions. The conditions and programs for which such changes are allowed are defined in [Grants Policy Issuance 12-06](#) (for states) and [Grants Policy Issuance 13-02](#) (for tribes).

G. Program Income (PI)

1. PI is defined at [2 CFR 200.80](#) as gross income directly generated by the EPA supported activity or earned as a result of the EPA award during the period of performance. Applicants must include estimates for PI in line 13 of their [SF-424A](#) budget form. Examples of PI include fees for services (e.g. conference or training registration fees), sales of products produced with EPA funds, and loan interest payments from loans an applicant will make with EPA funds. The projected value of program

income that will be generated and used during the grant period must always be shown on line 7 of the [SF-424A](#) budget form.

a. PI does not include refunds, rebates, and similar transactions in which the recipient recoups previously expended EPA funds. Disposition of refunds, rebates etc. is governed by [2 CFR 200.305\(b\)\(5\)](#), [2 CFR 200.406](#), and [2 CFR 200.344\(a\)\(2\)](#).

b. Proceeds from the sale of real property, equipment, and supplies purchased with EPA funds is not PI. [2 CFR 200.307\(d\)](#). The property regulations at [2 CFR 200.311 \(real property\)](#), [2 CFR 200.313 \(equipment\)](#) and [2 CFR 200.314 \(supplies\)](#) provide guidance on the disposition of proceeds from the sale of these items.

c. As provided at [2 CFR 200.307\(c\)](#) governmental revenues (e.g. fines, special assessments) are not PI. It is EPA policy to treat permit fees generated by state, tribal or local environmental programs as governmental revenues rather than PI per [2 CFR 1500.7\(a\)](#).

d. There may be program income implications when a recipient of EPA funds charges membership fees for exclusive services that are provided using EPA award funds or matching funds and the organization receives more than 50% of their annual revenue from EPA assistance agreements. Applicants who may be in this situation should consult their Project Officer for additional guidance.

2. Federal policy encourages applicants to earn income to defray program costs. [2 CFR 200.307\(a\)](#).

3. Rules governing PI are set forth at [2 CFR 200.307](#) and [2 CFR 1500.7](#). Under [2 CFR 200.305\(b\)\(5\)](#) and [2 CFR 200.343\(d\)](#) recipients must disburse PI before requesting additional EPA funds and refund PI accrued at the end of the agreement unless an EPA regulation (e.g. [2 CFR 1500.7\(c\)](#) for Brownfields Revolving Loan fund agreements) provides otherwise.

a. There are three potential dispositions of PI: deduction, addition, and cost sharing. EPA's general policy as provided at [2 CFR 1500.7\(b\)](#) is that "addition" is the default use of PI unless the terms and conditions of the award provide otherwise.

(1) The deduction method requires the recipient to deduct PI from total allowable costs to determine net allowable costs. [2 CFR 200.307\(e\)\(1\)](#). EPA policy, as reflected at [2 CFR 1500.7\(b\)](#) disfavors the use of the deduction method.

(2) The addition method allows applicants to add PI to the EPA funding and use it under the terms and conditions of the EPA award including regulations governing the allowability of costs. [2 CFR 200.307\(e\) \(3\)](#).

(a) For example, a recipient could not use PI generated by conference registration fees to purchase alcohol for a reception as that practice would violate [2 CFR 200.423](#).

(b) As provided at [2 CFR 1500.7\(b\)](#) the addition method applies to EPA assistance agreements by default unless the terms of the EPA assistance agreement provide otherwise. Applicants [SF-424A](#) budgets must include estimates of PI on line 7 and the budget narratives should contain a clear description of the planned use of PI. Applicants must have accounting systems that properly recognize, account for, and expend PI to under the addition method. [2 CFR 200.302\(b\)\(3\)](#).

(3) With prior EPA approval, applicants may use PI to meet cost sharing requirements as provided at [2 CFR 200.307\(a\)\(2\)](#). Additional guidance on using PI for cost share is provided below.

b. As provided by [2 CFR 200.307\(b\)](#) if authorized by the terms of the award or an EPA regulation, applicants may deduct costs incidental to generating PI from gross income to determine net PI if the costs have not also been charged to the EPA award.

c. In situations in which EPA is only partially funding the activity generating PI, an appropriate adjustment must be made to ensure that the amount of funds designated PI fairly reflects EPA's contribution to the revenue generating activity. For example, under the addition method, if the EPA award (including cost share) accounts for 50% of the cost of a conference, only 50% of the registration fees would be considered PI. In calculating the proportion of the cost attributable to the EPA award, the recipient must exclude the amount of revenue from anticipated fees. PI may only be used for allowable conference costs (e.g. a recipient could not use PI generated by registration fees to purchase alcohol for a reception, as that practice would violate [2 CFR 200.423](#).)

d. All program income earned during the grant period must be reported in Federal financial reports, including amounts in excess of the projected total shown on line 7 of the [SF-424A](#) budget form.

4. Program income when used for cost share can be complicated.

a. The amount of program income, if any, that is expected to be used to be used for cost share must be included in Column (f) "Non-Federal" of Section A "Budget Summary" table on the [SF-424A](#). The total amount of PI that the

applicant expects to generate for both cost share and addition, if applicable must be included in Line 7 of Section B “Budget Categories”. If program income is not going to be used for cost sharing, the PI should only be included in Line 7.

b. In instances where program income is being used for cost sharing and the recipient fails to generate sufficient program income to meet its cost share requirement, it will either have to make up for the shortfall with other non-Federal funds or it will be limited to the proportional amount of federal funds that are commensurate with the level of program income generated.

5. There are no Federal requirements on the use of PI earned after an award period ends unless an EPA regulation or the terms of the agreement provide otherwise. Under [2 CFR 200.307\(f\)](#) and [2 CFR 1500.7\(c\)](#) EPA may negotiate close out agreements to govern the use of accrued and future PI.

H. Miscellaneous

1. Depending on state, tribal or local law, transfers of funding between departments or agencies of the same unit of government may be Interagency Service Agreements for distribution of direct costs, subawards, or procurement contracts. Budgets describing these types of transactions will take various forms but must clearly assign costs to appropriate categories.

a. Under [2 CFR 200.302\(a\)](#) states expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds.

b. POs and GSs will work closely with governmental applicants to develop accurate information on how EPA funds will be transferred and expenditures characterized for budget purposes. For example, applicants may either provide separate budgets (encompassing both direct and indirect costs) for each department's share of the EPA award or characterize the transactions as subawards if permissible under state, tribal or local law.

(1) If the governmental applicant provides separate budgets for each department, the EPA award document should include separate budget worksheets for each department receiving EPA funds. However, these budgets may be consolidated into a single budget table at the time of award depending on Regional or Headquarters practice.

(2) If the governmental applicant characterizes the funding transfers among departments as subawards, a line item amount should be included in the budget narrative for the “Other” cost category. The applicant must comply with the requirements for pass-through entities at [2 CFR 200.331](#), if the transfer will be in the form of a subaward.

(3) If under state, tribal or local law transactions between agencies is classified as a procurement contract, then the costs may be classified as contractual. Transactions between agencies or departments of other units of government may also be classified as contractual depending on the nature of the transaction and state, tribal or local law.

c. Additional information on Interagency Transfers between departments of the same unit of government is available in the Office of Grants and Debarment's (OGD) [Frequent Questions](#) on the [Subaward Policy](#).

2. Transfers of funds between departments of the same Institutions of Higher Education (IHE) are governed by the IHE's internal policies and procedures and EPA does not consider these transactions subawards or procurement contracts for the purposes of the [UGG](#).

II. Personnel and Fringe Benefits

A. Personnel

1. This category includes only direct costs for the salaries, wages, and allowable incentive compensation for those individuals who are employees of the applicant's organization who will perform work directly for the project. Employees receive W-2 forms for Federal tax purposes. Note that under [2 CFR 200.444](#) there are substantial restrictions on the allowability of direct costs for salaries of Governors, Chief Executives of tribal and local governments, legislators etc.

a. Consultant costs (i.e. services provided by individuals who are not employees) are classified as contractual rather than personnel.

b. Compensation for program participants (e.g. stipends or other allowances) such as interns and fellows (other than individual fellowships under [40 CFR Part 46](#)) **who are not employees of the recipient organization** are participant support costs and should be classified as "Other".

c. Costs for employees of subrecipients are included in the "Other" budget category in the line item for subawards. [Pass-through entities](#) may require that subrecipients prepare budgets in a format that coincides with Section B "Budget Categories" of the [SF-424A](#).

2. If no personnel costs are identified in the budget, the applicant is responsible to EPA for reporting, overseeing any contracts (including consultant contracts), or subawards entered into under the assistance agreement and for managing any acquired or leased equipment and supplies. Unless the work plan provides an adequate explanation, EPA may ask for a written explanation of how the award will be managed in the absence of charges for personnel costs.

3. The applicant's budget detail should identify the personnel category type by Full Time Equivalents (FTEs), including percentage of FTEs for part-time employees, number of personnel proposed for each category, and the estimated funding amounts.²

a. For example, 4 engineers @ \$125,000, 2 scientists @ \$75,000, 1 manager @ \$200,000, etc. The personnel budget should also indicate the percentage of time each employee will devote to the EPA funded project (e.g. 25% of the time for 1 engineer at \$125,000 per year equals \$31,250 per year).

b. Note that applicants may also depict their personnel costs based on hourly rates and numbers of anticipated hours that will be charged to the assistance agreement. For example, the personnel budget could indicate that an employee will be compensated at \$25.00 per hour and the applicant anticipates that the employee will work 15 hours per week on the EPA funded project.

4. The applicant should ensure the amounts for personnel and fringe benefits specified in the budget narrative agree with the amounts specified in the applicable budget category in the [SF-424A](#).

a. Applicants may be asked to provide supporting documentation demonstrating that salaries and wages are not excessive particularly when an EPA assistance agreement will bear 100% of the costs for an individual's compensation.

b. EPA may ask the applicant to provide documentation that the compensation rates are based on a written personnel policy that is applied consistently to Federal and non-Federal activities. Applicant employees must not receive compensation for activities charged to EPA assistance agreements that are higher than what the recipient pays the employees for activities that are not Federally funded.

B. Fringe Benefits

1. Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. ([See 2 CFR 200.431](#))

a. Fringe benefit costs are allowable to the extent that the benefits are reasonable and are required by law, governmental unit employee agreement, or an established policy of the applicant consistently applied to activities that are Federally funded and those that are not.

b. Fringe benefits include, but are not limited to, the cost of leave, employee insurance, pensions and unemployment, cell phone allowances, holiday bonuses, and similar benefits.

² The term "FTE" refers to one employee working full time for a year. For employees working a 40-hour work week, one FTE equals 2080 hours.

2. The budget narrative (or similar document explaining the composition of the budget) should identify the recipient's fringe benefit rate and its composition. The applicant should identify the types and amounts of proposed fringe benefit costs. Fringe benefits may be expressed in terms of a percentage of salaries but must be allocable to the agreement based on the amount of time the employee devotes to work that benefits the EPA assisted project.

a. Applicants should not combine the fringe benefit costs with direct salaries and wages in the personnel category. EPA may request a breakout of the fringe benefit costs.

b. In instances where the applicant does not specify a percentage or amount for fringe benefits, EPA may verify that the recipient does not intend to charge any fringe benefit costs to the agreement.

3. If the applicant does not have a fringe benefit rate but intends to charge the EPA agreement for fringe benefits, the applicant should provide an estimate based upon the most recent actual fringe benefit costs. The budget detail narrative should provide an explanation of the basis for the estimate and show the calculations.

a. The actual fringe benefit costs must be allocable to the agreement based on the amount of time the employee devotes to work that benefits the EPA assisted project.

b. Unless the employee is working 100% of his or her time on the EPA funded project, the actual fringe benefit costs must be allocated to the EPA agreement in a manner that takes into account other activities the employee performs that must bear a proportional share of the fringe benefit costs. For example, if the recipient employee works 6 hours on the EPA funded project one week of an 80 hour pay period and 10 hours the other week of the pay period 20% of the fringe benefits the employee earned during the pay period may be charged to the EPA agreement.

4. EPA may question and require justification for fringe benefit rates that seem unusually high based on information from other similarly situated recipients. If so, EPA may ask the applicant to demonstrate that the composition of fringe benefits includes only allowable costs under [2 CFR 200.431](#) and are properly allocable to the EPA funded program or project. For example, costs for providing an automobile to an executive are unallowable to the extent that the costs include home to work transportation and other personal uses as provided by [2 CFR 200.431\(f\)](#).

a. If not otherwise available in the budget narrative, EPA may request that applicants identify the types of fringe benefits that are included in the fringe benefit rate.

b. EPA will determine whether leave is included in the fringe benefit rate or the applicant has a system for properly allocating leave costs.

(1) In the absence of a rate that covers leave costs the GS may ask the applicant whether and how it intends to charge the costs of leave to the agreement, especially for staff that work less than full-time on any one agreement. As required by [2 CFR 200.431\(b\)\(2\)](#) the applicant must equitably distribute leave across all related activities including Federal awards over the course of the full year.

(2) EPA assistance agreements should only bear the costs of leave in proportion to the employees' work on the agreements. The recipient may charge the agreement for 100% of the leave only for employees who work full-time on that agreement for a full year. It may charge 100% of the leave earned while working on the EPA agreement for employees who work 100% of the time on that agreement, regardless of how long the employee works on it. For example, if an employee earns 8 hours of leave for each pay period and works 26 pay periods in a year, he/she will accrue 208 hours for a full year. If he/she works 100% of the time on a single EPA agreement for a full year, then the organization could charge that agreement for all 208 hours. However, if the employee worked 100% on the agreement for less than a full year, but used 208 hours of leave during this time, not all of it would be allocable to the EPA grant. Only the hours accrued while working on the grant would be allowable.

Similarly, the recipient would allocate leave charges for employees who do not work full-time on the agreement under a formula that considers the extent to which the employee performs work on the agreement as well as other activities.

III. Travel

A. Trips Covered by Travel Category

1. As provided under [2 CFR 200.474](#), costs classified as “travel” must be for recipient employees for trips that are necessary to perform the EPA agreement. Travel should be integral to the purpose of the proposed project (e.g., inspections) or related to project activities (e.g., attendance at meetings pertaining to the activities EPA is funding or training courses necessary for employees to effectively carry out the assistance agreement).

2. Travel for trainees and other program participants such as interns, fellows, and work group members who are not employees of the recipient are not travel costs for the purposes of the [SF-424A budget form](#). They are participant support costs under [2 CFR 200.75](#) and [2 CFR 200.456](#) and should be included in the “Other” budget category.

3. Costs for transportation services (e.g. a bus and driver) for local or long-distance travel are classified as contractual.

4. Costs for renting vans for local transportation (i.e. the employee renting the van is not in travel status) without the services of a driver should be classified as “Other” for consistency with the treatment of leases.

B. Travel Budget Narrative

1. If known, applicants should provide a narrative description of the types/purposes of travel, estimated number of trips, planned destinations, estimated number of travelers, and estimated per trip costs for travel to training, meetings, and conferences.

Note: Ongoing routine travel for site visits/inspections and similar activities and local travel may be combined into a single amount.

2. As provided at [2 CFR 200.474\(b\)](#) and [2 CFR 200.403\(a\)](#), the amount and type of travel the applicant includes in the budget for the EPA agreement must be necessary and reasonable to effectively carry out the project.

3. Travel costs for executives (e.g. Governors, Mayors, elected Tribal Leaders) and legislators (including Tribal Council members) are allowable with prior EPA approval if the travel is specifically related to performing an EPA funded project or program.

4. Under [2 CFR 200.475](#) travel costs for Trustees, Directors, and similar officials with nonprofits or IHE are allowable as a direct cost only if the travel costs are allocable to an EPA award and not included in the recipient’s indirect cost pool.

5. The terms of EPA financial assistance agreements require that EPA 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, the U.S. Territories or possessions.³ This approval is typically provided prior to award Applicants that routinely travel to Mexico and Canada by motor vehicle (e.g. for sampling or meetings) may describe their travel in general terms in their work plan or budget narrative. If the recipient has not identified all trips EPA will fund at time of award or indicates that there will be no international travel by employees, EPA’s General Terms and Conditions require the recipient to obtain EPA approval for international travel through their Project Officer.

³ U.S. territories are islands under the jurisdiction of the United States which are not States of the United States. U.S. possessions can be divided into two groups:

1. Those that have their own governments and their own tax systems (Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, and The Commonwealth of the Northern Mariana Islands), and
2. Those that do not have their own governments and their own tax systems (Midway Island, Wake Island, Palmyra Island, Howland Island, Johnston Island, Baker Island, Kingman Reef, Jarvis Island, and other U.S. islands, cays, and reefs that are not part of any of the fifty states).

C. Allowable Travel Costs

1. Travel costs include payment or reimbursement of recipient employees' costs for common carrier transportation fares, lodging, per diem (subsistence), rental vehicles, taxes, internet access charges, phone calls, and similar personal expenses allowed under the recipients travel policies that apply to Federal and non-Federally funded activities.
2. Under [2 CFR 200.474\(d\)](#) allowable travel costs may not exceed the rates and amounts for Federal travel unless the recipient's cognizant Federal audit agency (or EPA if requested by the recipient to do so) has accepted a travel policy that provides differently. Federal lodging and per diem rates are available at <http://www.gsa.gov/portal/content/104877>.
2. The costs of first class and business class transportation are generally not allowable. If an applicant intends to use EPA funds for first class or business class transportation the requirements at [2 CFR 200.474\(e\)](#) must be met.

IV. Equipment

A. Definition of Equipment

1. Equipment is defined as tangible, non-expendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit, although applicants may establish a lower dollar threshold or different definition of equipment through their own written property management policies as long as the thresholds and definitions are consistent with [2 CFR 200.33](#) and [2 CFR 200.94](#). The applicant's lower threshold or different definition is binding.
2. This category includes only equipment the applicant proposes to purchase as a direct cost. Costs for equipment rentals are classified as "Other".
3. Equipment also includes accessories and services included with the purchase price necessary for the equipment to be operational. It does not include separate equipment service or maintenance contracts (not included in the purchase price) which should be in the contractual category.
4. When an applicant intends to purchase a base component that costs less than \$5,000 (or the applicant's equipment price threshold) and related modifications, attachments, accessories, or auxiliary apparatus are necessary to make the asset usable for the purpose for which it will be acquired, the cost of all components is cumulative in determining whether it is considered equipment. If the net invoice price of all related items equals or exceeds \$5,000 or the applicant's equipment price threshold, EPA considers the asset to be equipment rather than supplies based on the definition of "Acquisition cost" at [2 CFR 200.2](#).

The combined costs should be categorized as equipment for budgeting, inventory and disposition purposes. These determinations require case by case judgments based on the intended use of the equipment and whether the attachments, accessories, or auxiliary apparatus are components of the asset rather than intended as stand-alone devices. The timing of the purchases is also important.

Note that [2 CFR 200.2](#) provides that “[A]ncillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the non-Federal entity's regular accounting practices.”

B. Prior EPA Approval for Equipment Purchases

1. Pursuant to [2 CFR 200.439\(b\)\(2\)](#), applicants must have prior EPA approval for equipment purchases.
2. Applicants’ budget narratives should include an itemized listing of all equipment proposed under the agreement and explain why purchasing that equipment is necessary for the project. Applicants should not specify particular brands of equipment since these items generally must be procured competitively but should describe the type of equipment they intend to purchase with EPA funds in order to obtain EPA approval. Applicants should refer to [section IV. D.](#) below for guidance on procuring equipment.
3. If the applicant cannot provide an itemized equipment list at the time of award, then EPA will include a programmatic term and condition requiring post-award EPA approval of equipment purchases. The budget may need to be revised based on the final itemized list of equipment.
4. If the applicant’s itemized list of equipment identifies items with unit costs of less than \$5,000, EPA may ask the applicant whether its property management policies stipulate such a lower threshold for equipment unless that matter has previously been discussed with the applicant or otherwise provided in the budget detail narrative.
5. EPA approval is not required for purchases of equipment manufactured in foreign countries. Some EPA financial assistance programs may be subject to Buy American requirements.

C. Allowability of Equipment Costs

1. In reviewing applicants’ proposed budgets, EPA staff will pay particular attention to certain items such as automobiles and scientific devices that have useful lives beyond the project period. CEPs are an example of a situation in which there may be an ongoing need for equipment after the project period ends.
2. Short-term rental of such equipment may be more economical depending on the nature of the project and the extent of EPA’s funding relationship with the applicant. For example, if the applicant will use purchased equipment on other Federally funded

projects, then purchasing the equipment may be appropriate provided the costs of the equipment are properly allocated. Equipment rental costs are classified as “Other”.

3. 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](#) and should be included as a separate line item in the Equipment category.

D. Procedures for Purchases of Equipment

Applicants may specify brand names and prices in proposed budgets if the amount of the equipment purchase is less than the [2 CFR 200.67](#) micro-purchase threshold and the applicant complies with the price reasonableness and equitable distribution of purchases requirements of [2 CFR 200.320\(a\)](#), or the applicant complies with competitive procurement requirements.

1. EPA accepts internet or email price comparisons from at least three vendors as compliant with competitive procurement requirements if the purchase price is less than the [2 CFR 200.88](#) simplified acquisition threshold. Additional guidance on procurement is available and in the [Section VI. C.](#) of the Contractual Category of this Cost Review Guidance and in EPA’s [Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements](#)

2. EPA rarely accepts sole source justifications for equipment purchases when items are available in the commercial market-place. An example of an acceptable sole source equipment justification under [2 CFR 200.320\(f\)\(1\) or \(f\)\(3\)](#) is when the applicant’s project requires the use of a specific device that is patented and available from only one vendor. The justification must adequately explain why there are no similar devices available that meet the applicant’s requirements.

3. Applicants should provide sufficient information in the budget narrative for EPA to determine whether competitive procurement requirements have been met prior to award. Otherwise, the applicant should not specify a brand name and indicate that it will comply with the [2 CFR Part 200 Procurement Standards](#) when acquiring equipment after award.

V. Supplies

A. Definition of Supplies

1. Supplies are tangible personal property other than equipment with a per item acquisition cost of less than \$5,000 as provided at [2 CFR 200.94](#), unless the recipient’s written property management policies are based on a lower dollar threshold for classification of supplies.

2. Electronic devices including laptops, personal computers, tablets, and cell phones with a per item acquisition cost of less than \$5,000 may be classified as supplies unless the

recipient's property management systems classify these items differently. Recipients may define such items as equipment to ensure they are tracked in their inventory systems.

3. When an applicant intends to purchase a base component that costs less than \$5,000 (or the applicant's equipment price threshold) and:

(a) related modifications, attachments, accessories, or auxiliary apparatus are necessary to make the asset usable for the purpose for which it will be acquired, and

(b) the net invoice price of all related items equals or exceeds \$5,000 or the applicant's equipment price threshold,

EPA considers the asset to be equipment rather than supplies based on the definition of "Acquisition cost" at [2 CFR 200.2](#). The combined costs should be categorized as equipment for budgeting, inventory and disposition purposes. Refer to section IV for additional guidance.

Note that [2 CFR 200.2](#) provides that "[A]ncillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the non-Federal entity's regular accounting practices."

B. Supplies Budget Narrative

1. The applicant's budget narrative should include a brief explanation of why the supplies proposed for purchase are necessary for the project.
2. Costs should be categorized by major supply categories (e.g. office supplies, computing devices, monitoring equipment) and include the estimated costs by category.
3. Any single item valued at \$5,000 or more in this category should be moved to the "Equipment" category. Services associated with supplies, such as rental costs for computing devices, should be included in the "Other" category.

C. Procedures for Purchase of Supplies

1. EPA may inquire about the procedures an applicant will use to acquire supplies.
2. In many cases applicants will be able to purchase supplies without competition under [2 CFR 200.320\(a\)](#) micro-purchase procedures. Additional information regarding micro-purchase procedures and adjustments to the threshold is available in [Section VI. C.](#) below and EPA's [Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements](#)

VI. Contracts

Note: Detailed guidance on compliance with the 2 CFR Part 200 Procurement Standards under EPA assistance agreements is available at <https://www.epa.gov/grants/best-practice-guide-procuring-services-supplies-and-equipment-under-epa-assistance-agreements>.

A. General

1. Recipients use procurement contracts to acquire property (including intellectual property such as software licenses) and services needed to carry out the EPA funded project or program.
2. The descriptions of contracting procedures in this Cost Review Guidance are based on the [UGG](#). However, some EPA regulations establish unique contracting requirements which apply to certain programs. These regulations include those for Superfund Technical Assistance Grants (TAG) ([40 CFR Part 35, Subpart M](#)) and Superfund Cooperative Agreements ([40 CFR Part 35, Subpart O](#)).
 - a. TAG recipients should consult [“Procuring a Technical Advisor or Other Contractor With TAG Funds.”](#)
 - b. Superfund Cooperative Agreement recipients should consult [“Procurement Requirements Under a Cooperative Agreement.”](#)
3. Contractual services (including those provided by consultants) are those services to be provided by an individual or organization, other than the recipient’s own employees, that establish a contractual relationship as described at [2 CFR 200.330\(b\)](#) and [Appendix A of EPA’s Subaward Policy](#).
4. Transactions between recipients and for-profit firms or individual consultants are in almost all cases procurement contracts subject to the [2 CFR Part 200 Procurement Standards \(2 CFR 200.317 through 200.326\)](#) competition requirements rather than subawards, which generally may be awarded without competition.
5. Speaker fees (including “honoraria” and travel expenses for non-employees), stand-alone contracts for audio-visual services and costs for hiring transportation services (vehicles and drivers) at conferences, meetings, workshops and similar events should be classified as contractual. Facility rental costs are classified as [“Other”](#) and may include audio-visual and catering services if these services are provided through the facility. Personal vehicle rental costs for employees in travel status are typically considered travel expenses.
6. The applicant’s work plan and budget narrative should explain why contracting is appropriate for the project.

a. The applicant should list the proposed contract activities along with a brief description of the scope of work or services to be provided, proposed duration, and proposed procurement method (competitive or non-competitive) in its budget narrative.

b. EPA does not require applicants to identify contractors (including consultants) in the work plan, and the terms of EPA's competitive announcements warn applicants not to do so unless they have already complied with the [2 CFR Part 200 Procurement Standards](#). Refer to the [Sole Source Guidance in Subsection C. 3.](#) below for additional information.

c. Applicants will need to work with their POs to obtain EPA approval for service contracts that will be performed in a foreign country.

7. Contingency reserves for contracting associated with a major information technology infrastructure project or similar activity are allowable to the extent permitted by [2 CFR 200.433](#) and should be included as a separate line item in the Contractual category.

B. Special Contracting Situations

1. If the applicant hires individual consultants, the proposed rate of compensation may not exceed the consultant cap (Level IV of the Executive Schedule) as described at [2 CFR 1500.9](#) and the most current Consultant Fee Term and Condition. The cap on compensation for individual consultants is statutory, Public Law 111-8, it applies to all recipients including states, and may not be waived by EPA. The cap is subject to revision at the beginning of each calendar year when Office of Personnel Management (OPM) changes the compensation for Level IV of the Executive Schedule.

a. The term "individual consultant" is defined in EPA's consultant fee policy which is published at [69 Fed. Reg. 18380 \(April 17, 2004\)](#). Essentially, an individual consultant is not an employee of the recipient but provides personal services to the recipient under contract and is subject to the recipient's selection, direction, and control.

b. Contracts or subcontracts with multi-employee firms for services are not affected by the compensation limitation in [2 CFR 1500.9\(a\)](#), provided the contractor or subcontractor rather than the applicant selects, directs and controls individual employees providing consulting services.

c. If a consultant is paid on an hourly basis, EPA will not participate in more than the hourly equivalent of the rate or participate in more than the maximum daily rate if a consultant paid on an hourly basis works more than 8 hours in a day. There is no maximum number of days for the purposes of the consultant fee cap. However, if a consultant works less than 8 hours in a day, EPA will not

participate in more than the hourly equivalent rate for each hour worked even if the consultant is paid on a daily basis.

d. The consultant fee limitation does not apply to fixed priced or lump sum contracts for specified products such as reports or delivery of a training course. Costs for these services must meet regulatory standards for reasonableness.

2. As provided at [2 CFR 200.432](#), costs for meals and light refreshments for conferences are allowable unless the terms of the EPA assistance agreement restrict allowability. The regulation defines conference "... as a meeting, retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information beyond the [recipient] and is necessary and reasonable for successful performance . . ." of the EPA funded project. EPA assistance agreements have a general term and condition governing the use of EPA funds to purchase meals and light refreshments at conferences.

a. Meals and light refreshments procured from caterers (separate from facility rental charges) should be classified as contractual.

b. If not explicitly described in the scope of work that the Award Official approves, recipients must obtain prior approval from EPA's Grant Management Officer (GMO) for meals and light refreshments post-award in accordance with the terms and conditions of the EPA agreement.⁴ In general, meals should only be allowable during conferences when the work continues during the meals.

(1) Applicants may address questions about whether costs for light refreshments, and meals for events are allowable to the EPA PO.

(2) The Agency Award Official or GMO will make final determinations on allowability.

c. Costs for light refreshments and meals for applicants' staff meetings and similar day-to-day activities are not allowable under EPA assistance agreements.

d. EPA funding for meals, light refreshments, and rental space may not be used for any portion of an event (such as an after-hours reception, meal or meeting) where alcohol is served, purchased, or otherwise available as part of the event or meeting, even if EPA funds are not used to purchase the alcohol.

3. Costs for training courses for recipient employees (e.g. instructional services) provided by third parties should be classified as contractual, although any travel costs for the recipient's employees should be categorized as travel. Similarly, third party provided training courses for program participants belong in the contractual category but the travel

⁴ Prior EPA approval for meals and light refreshments is not required for state CEP agreements to the extent provided for in EPA's "Light Refreshments and/or Meals" General Term and Conditions.

and or stipends for trainees should be [2 CFR 200.75](#) participant support costs and classified as “Other”.

4. Stand-alone equipment maintenance or service contracts (i.e. not included in the purchase price for the equipment) are classified as contractual.
5. Acquisition of printing services for larger scale productions such as books, other bound documents, and related graphics services should be classified as contractual. However, amounts budgeted for document reproduction on an occasional “as needed” basis from self-service photocopying firms should be classified as “Other”.
6. Cost estimates for leased or rented items (equipment, office space) should be included in the “Other” category.

C. Competition Requirements

One aspect of the Contract cost category that often leads to questions regarding regulatory compliance by EPA staff as well as auditors relates to competition requirements. These questions may arise prior to award if a recipient names a contractor in its proposal or otherwise indicates that it does not intend to follow competitive procedures in selecting contractors.

1. States

- a. As provided in [2 CFR 200.317](#), states follow the same policies and procedures they follow for procurements financed with non-Federal funds. States are subject to the requirement at [2 CFR 200.322](#) for procurement of recovered materials “where the purchase price of the item exceeds \$10,000 or the value of the quantity acquired during the preceding fiscal year exceeded \$10,000” per unit and any contract clauses required by [2 CFR 200.326](#).
- b. All recipients, including states, must comply with EPA’s rules for Disadvantaged Business Enterprises (DBE) at [40 CFR Part 33](#).

2. Other Recipients

- a. Non-state recipients proposed contracts must comply with the [2 CFR Part 200 Procurement Standards \(2 CFR 200.317 through 200.326\)](#). Additional information regarding appropriate procurement procedures is available in EPA’s [Best Practice Guide for Procuring Services, Supplies, and Equipment Under EPA Assistance Agreements](#).
- b. The [UGG](#) at [2 CFR 200.318\(e\)](#) encourages recipients to use intergovernmental or inter-entity agreements for efficient procurement of common goods and services. For example:

(1) A state may enter into one or more contracts with environmental consultants that local governments may also use to acquire consulting services.

(2) A county government may have a competitively awarded architecture/engineering (A/E) contract that municipalities within the county's jurisdiction may use to acquire A/E services.

(3) One or more IHEs or nonprofits may cooperate to conduct a competition for professional services and award a single, multi-year contract to the successful offeror.

3. Sole Source Guidance

a. If the applicant is not a State and proposes to award the contract without competition (i.e., a "sole source"), it must comply with [2 CFR 200.320\(f\)](#).

b. EPA does not require applicants to identify contractors in proposals or work plans and EPA policy precludes agency staff from suggesting, recommending, or directing recipients to hire particular firms or individuals. Applicants should not ask EPA personnel for recommendations for potential contractors.

(1) The fact that an applicant has named a contractor in its proposal as a "partner" or otherwise does not in and of itself justify a sole source award.

(2) When an applicant (other than a state) names a contractor (including a consultant) in its proposed work plan, EPA may inquire whether the applicant has complied with [2 CFR Part 200 Procurement Standards \(2 CFR 200.317 through 200.326\)](#), unless the applicant has already described the process it followed to select the contractor.

c. As provided at [2 CFR 200.320\(a\)](#), recipients may use micro-purchase procedures to award contracts without competition as long as micro-purchases are equitably distributed among qualified sources and the price is reasonable. The micro-purchase threshold is currently set at \$10,000 by statute and [EPA Policy](#).⁵ Recipients with procurement procedures that establish lower thresholds for competition must comply with their own procedures. Some IHEs, their related or affiliated non-profit entities, non-profit research organizations or research institutes may have micro-purchase thresholds higher than \$10,000 with the

⁵ The Office of Management and Budget raised the threshold for micro-purchases from \$3,500 to \$10,000 on June 20, 2018 as provided for in the National Defense Authorization Acts (NDAA) for Fiscal Years 2017 and 2018. EPA implemented the OMB direction in [RAIN-2018-G04 Micro-Purchase and Simplified Acquisition Threshold for Procurements by EPA Assistance Agreement Recipients and Subrecipients](#).

approval of their cognizant agency for indirect cost rate negotiation.⁶ If the recipient intends to enter a sole source contract in excess of the micro-purchase threshold, the following information on EPA policies should be considered.

(1) Sole source contracts in excess of the micro-purchase threshold should be rare as there are multiple sources for services (particularly consulting services) and products in the commercial market-place. There is a difference between “best” and “only” and sole source justifications based on “unique qualifications” are not persuasive. Every firm or individual consultant is unique.

(2) Potential justifications include 2 CFR [200.320\(f\)\(1\)](#), only one source, 2 CFR [200.320\(f\)\(2\)](#), an emergency, 2 CFR [200.320\(f\)\(3\)](#) EPA approval, or 2 CFR [200.320\(f\)\(4\)](#) after soliciting a number of sources the recipient reasonably decided competition was inadequate.

(3) EPA’s position is that competition is required in accordance with the [UGG](#) for commercially available items (including consulting services) unless due to a patent, copyright, or equipment maintenance agreement with the original manufacturer, or other similar reason the required service or product is available from only one firm or there is an emergency (e.g. a natural disaster) that precludes competitive bidding. A long-term relationship with a potential source that is “unique” is not an acceptable justification.

(4) Under [2 CFR 200.323\(b\)](#), recipients must negotiate profit as a separate element of cost for sole source procurements other than micro-purchases.

d. When EPA determines that a sole source contract is inappropriate, an EPA Project Officer or Grant Specialist will inform the recipient. If the recipient still believes that a sole source contract is warranted, it may submit a written request (with appropriate justification) for EPA approval under [2 CFR 200.320\(f\)\(3\)](#) to a GMO. The GMO will inform the recipient of EPA’s decision in writing.

e. For purchases that cost more than the micro-purchase threshold but less than the [2 CFR 200.88](#) Simplified Acquisition Threshold (currently set at \$250,000 by statute as implemented by [EPA Policy](#)), recipients may use [2 CFR 200.320\(b\)](#) small purchase procedures and solicit offers from an adequate number of sources, taking DBE considerations into account, without formally advertising or otherwise publicizing the contracting opportunity.⁷

⁶ This practice is authorized by section 217(b) of the NDAA for Fiscal Year 2017 and is codified at 41 U.S.C. 1902(a)(2).

⁷ The Office of Management and Budget raised the Simplified Acquisition Threshold to \$250,000 on June 20, 2018 as provided for in the NDAA for Fiscal Year 2018. EPA implemented the OMB direction in [RAIN-2018-G04](#)

(1) EPA’s position is that recipients must obtain documented prices or quotes (e.g. by email or price list searches) from at least 3 three qualified sources to meet this requirement although recipients may establish procurement procedures that require solicitations from more sources.

(2) Recipients need not select the lowest priced item or service if it does not meet requirements or the recipient can otherwise demonstrate that the goods or services available at a higher price offer the best value. Recipients must, however, justify a decision to purchase at the higher price and ensure that the vendor charges similarly situated customers the same price as it is offering to the recipient and document that decision in the procurement file.

f. Procurements in excess of the Simplified Acquisition Threshold are subject to the formal competitive requirements of [2 CFR 200.319](#) and [2 CFR 200.320\(c\) or \(d\)](#).

VII. Construction

A. General

1. EPA’s Small and Disadvantaged Business rule at [40 CFR 33.103](#) defines “construction” as “. . . erection, alteration, or repair (including dredging, excavating, and painting) of buildings, structures, or other improvements to real property, and activities in response to a release or a threat of a release of a hazardous substance into the environment, or activities to prevent the introduction of a hazardous substance into a water supply.” Construction costs may include site preparation, demolishing and building facilities, making permanent improvements to facilities or other real property, major renovations of existing facilities, and related architectural or engineering services. There are program specific EPA definitions of “construction” at [40 CFR 35.2005](#) (Clean Water Act Construction Grants) and [42 U.S.C. 6903](#) (Solid Waste Disposal Act).

With very few exceptions, recipients carry out construction projects by hiring contractors which typically include a general contractor and an A/E firm. Unless directed otherwise by EPA’s Project Officer, applicants should classify construction costs as “contractual” for programs and projects covered by this guidance with the exception of “force account” costs relating to compensation of the recipients’ own employees. Force account costs should be classified as personnel and fringe benefits.

[Micro-Purchase and Simplified Acquisition Threshold for Procurements by EPA Assistance Agreement Recipients and Subrecipients.](#)

2. The applicant should provide a list of planned construction contracts along with a brief description of the scope of work or services to be provided, planned duration, and planned procurement method (competitive or non-competitive), if known. Applicants should consult the guidance on contracting in Section VI for additional information. The cost plus percentage of construction cost method of contracting is prohibited by [2 CFR 200.323\(d\)](#).

B. Eligible Construction Costs

1. Construction *excludes* the cost of land acquisition and off-site improvements unless authorized by statute. Land acquisition costs should be classified as “Other” with a separate line item in the budget narrative explaining the purpose of the acquisition.

2. With the exception of Superfund, CERCLA 104(k) Brownfields, and Clean Water Act sections 319 and 320, construction costs are typically not eligible under project grants, continuing environmental program grants, and other agreements covered by this cost review guidance. Construction costs are only allowable under project grants if such costs are integrally related to and necessary for an activity that is authorized in an EPA statute such as a demonstration project. Unless program guidance expressly provides that construction is an eligible cost, the applicant should consult with the PO to verify that proposed construction costs are allowable and properly characterized.

C. Prevailing Wages

3. Davis Bacon (DB) prevailing wage requirements apply only when the statute authorizing the EPA assistance program imposes DB. Superfund, Brownfields, the Clean Water and Drinking Water State Revolving Loan Funds, Clean Water Act sections 319 and 320 (for construction of treatment works), are subject to DB. The Department of Labor provides a definition of “construction” for DB purposes at [29 CFR 3.2](#).

VIII. Other

A. General

This category must include only those types of direct costs that do not fit in any of the specific budget categories. Examples of costs that may be in this category are:

1. Insurance and indemnification [2 CFR 200.447](#).
2. Telephone service and utilities.
3. Occasional document reproduction at local copying centers.
4. Capitalization funding for revolving loan programs.

5. Third party in-kind contributions towards cost share [2 CFR 200.306](#).
6. Tuition remission and scholarships under agreements with educational institutions.
7. Transactions between recipients and Federal agencies.
8. Rental/lease of equipment, office space, and meeting or conference facilities (additional guidance in [Subsection C](#), below).
9. Participant support costs (additional guidance in [Subsection D](#), below).
10. Subawards (additional guidance in [Subsection E](#), below).
11. Land acquisition costs when authorized under the financial assistance program.

B. Special Considerations for Other Direct Costs

1. Applicants should ensure that budget narratives for the “Other” category include line item amounts for all costs it characterizes as “Other” so that reviewing EPA staff are aware of the items in the category.
2. Under [2 CFR 200.400\(g\)](#) and EPA policy, any “management fees” or similar charges that amount to a “profit” are unallowable since they are not costs directly related to performing the project or approved by a cognizant Federal agency as indirect costs. Applicants may not include such fees in the “Other” category.
3. Contingency reserves for major projects such as construction or information technology infrastructure are addressed at [2 CFR 200.433](#).

C. Rental/Lease

1. The allowability of costs for renting equipment (including vehicles), office, laboratory or conference/meeting space is governed by [2 CFR 200.465](#).
2. Rental costs for a recipient’s “main office” are typically included in the indirect cost pool.
 - a. Some organizations have central indirect rates that cover only the broader organization and not specific divisions, satellite offices, or labs. In these instances, and other situations when a recipient rents space for a discrete activity necessary to carry out the assistance agreement, rental costs may be charged directly provided the rates are reasonable and fully or partially allocable to the agreement.

- b. In instances where the rental costs are only partially allocable to a particular grant, the recipient should provide EPA with an allocation methodology to distribute these costs among all appropriate funding sources.
3. Examples of situations in which rental costs may be fully allocable to an assistance agreement include space rented for a conference, training course, community meeting, or temporary use of a laboratory. Refer to [2 CFR 200.465\(a\)](#) for additional guidance.
4. There are special rules when a recipient is directly charging rent for a facility or equipment on a “sale and lease back” arrangement or that it owns or is owned by a related party that is leased on a “less than arms-length” basis. The amount of rent that is allowable is limited by [2 CFR 200.465\(b\) and \(c\)](#). Applicants should consult with their Project Officers and Grants Specialists if these situations arise.
5. Conference/meeting facility rental charges may include meals and light refreshments per [2 CFR 200.432](#) as well as audio-visual services. Additional guidance on EPA’s policies for the use of financial assistance funds for meals and light refreshments is available in [Section VI. B. 2. a. through e.](#) above. Recipients must compete requirements for conference/meeting facilities when the amount of the charges are expected to exceed the micro-purchase threshold. Refer to the guidance in the [Competition Requirements](#) in the Contractual Category for additional information.
6. Leases and other rental agreements with costs that will be charged directly to the EPA assistance agreement are generally subject to the competition requirements of [2 CFR 200.319](#) and [2 CFR 200.320](#). Two exceptions are when the amount of allowable rental costs are governed by the “sale and lease back” or “less than arms-length” rules at [2 CFR 200.465\(b\) and \(c\)](#).

D. Participant Support Costs

1. Participant support costs may include:
 - a. Stipends for interns, fellows, trainees, or attendees at community meetings who are not employees of the applicant including registration fees, training materials and travel costs when the purpose of the trip is to participate in the project activity.
 - b. Travel assistance for state and tribal workgroup members who are not employed by the applicant.
 - c. Rebates or other subsidies provided to program beneficiaries for:
 - (1) purchases of commercially available, standard (“off the shelf”) pollution control equipment or low emission vehicles under the Diesel Emission Reduction Act program when the program participant, rather than the recipient, owns the equipment;

(2) Subsidies provided to program beneficiaries to encourage participation in statutorily authorized programs to encourage environmental stewardship (e.g. Best Management Practices under the Clean Water Act section 319 Nonpoint Source programs;

(3) subsidies to promote adoption of source reduction practices by businesses under section 6605 of the Pollution Prevention Act).

(4) rebates or subsidies for wood stove replacement under financial assistance programs authorized by the Clean Air Act or EPA's annual appropriation acts.

EPA's [Interim Guidance on Participant Support Costs](#) provides detailed information regarding the standards for EPA approval of rebate and subsidy programs.

d. Stipends and other incentives paid to participants in research experiments, focus groups, surveys, or similar research activities.

e. other payments to or on behalf of Project/Program beneficiaries ("other payments") that EPA determines to be statutorily authorized.

2. Participant support costs are governed by [2 CFR 200.75](#), EPA's [Interim Guidance on Participant Support Costs](#) and supplemental EPA program office guidance (e.g. for the [Diesel Emission Reduction Act](#) program). Applicants must obtain prior EPA approval for participant support costs.

a. Participant support costs that recipients will pay directly should be included as a separate line item in the applicant's budget narrative for the "Other" category to obtain EPA approval prior to award. Section 7 of the [Interim Guidance on Participant Support Costs](#) provides additional information regarding how to budget for participant support costs paid by subrecipients and procurement contractors.

b. Participant support costs are only allowable if EPA's Award Official approves the applicant's description of the activities that will be supported and budget narrative for participant support costs.

c. After EPA has made the award, if a recipient wants to include participant support costs that were not previously included in their approved budget narrative, they recipients may still obtain "prior" EPA approval for participant support costs that were not included in the EPA approved budget narrative by submitting a request to EPA's PO and GS. Under [2 CFR 200.308\(c\)\(1\)\(v\)](#) recipients must obtain prior EPA approval for post-award transfers of funds budgeted for participant support costs to other direct cost categories. An EPA GMO or Award Official will approve or deny the request to approve transfers in writing.

d. As provided at [2 CFR 200.68](#) recipients must exclude participant support costs from their Modified Total Direct Cost (MTDC) pool for the purposes of applying indirect cost rates.

3. Applicants must specify the amount of travel assistance they intend to provide program participants and explain the purpose of the trips the program participants will take.

a. If the applicant proposes international travel for program participants, it should work with the PO to obtain EPA approval. Note that EPA's General Terms and Conditions require recipients to obtain EPA approval for international travel that is not specified in the EPA approved budget narrative for the assistance agreement.

b. Applicants that routinely support program participant travel to Mexico and Canada by motor vehicle (e.g. for training courses) may describe their travel in general terms in the application. EPA may then approve the travel generally as opposed to requiring approval on a trip-by-trip basis.

E. Subawards

1. Subawards (i.e. "Subgrants") are a distinct type of cost under the "Other" category and are subject to stringent requirements in the UGG at [2 CFR 200.330](#) and [2 CFR 200.331](#) as well as [EPA's Subaward Policy](#). When a recipient makes subawards it becomes a "pass-through entity" under [2 CFR 200.74](#). Pass-through entities must comply with [EPA's Subaward Policy](#) as required by EPA's [National Subawards Term and Condition](#) which is contained in all EPA awards.

a. As provided in [2 CFR 200.92](#) and [2 CFR 200.330\(a\)](#), the term "subaward" means an award of financial assistance (money or property) by a pass-through entity (the recipient) to a subrecipient to carry out part of the EPA funded project even if the recipient provides the assistance under an instrument they refer to as a "contract."

b. The term "subaward" does not include:

(1) Technical assistance in the form of services instead of money or other assistance in the form of revenue sharing or direct appropriations.

(2) Payments to program beneficiaries such as participant support costs.

(3) Transactions between recipients and Federal agencies.

c. Loans, loan guarantees, interest subsidies and similar assistance provided to borrowers in EPA revolving loan fund capitalization grants are subawards for the purposes of [2 CFR 200.303](#), Internal controls and [2 CFR 200.331, Requirements](#)

[for pass-through entities](#) and the [2 CFR Part 170](#), requirements for Reporting Subaward and Executive Compensation Information. The extent to which these requirements apply to EPA revolving loan programs is described in the terms and conditions of the EPA assistance agreement or program guidance.

d. Procurement contracts as described at [2 CFR 200.22](#) are not subawards. Differences between subrecipients and contractors are described in [2 CFR 200.330](#). EPA provides examples of transactions EPA considers to procurement contracts as opposed to subawards in [Appendix A of EPA’s Subaward Policy](#).

(1) Transactions between recipients and for-profit firms or individual consultants are in almost all cases procurement contracts subject to the competition requirements in the [2 CFR Part 200 Procurement Standards \(2 CFR 200.317 through 200.326\)](#) rather than subawards that generally may be made without competition.

(2) EPA’s [Subaward Policy Frequent Questions](#) provides additional information about EPA’s policies for determining whether transactions are subawards, procurement contracts, or another type of transaction. For example, the Frequent Questions address “partnership” arrangements in detail to assist recipients in properly characterizing financial transactions with project partners.

(3) Recipients should consult with POs and GSs initially if there are questions regarding whether a particular transaction is a procurement contract or a subaward.

2. Applicants must provide the aggregate amount they propose to allocate to subawards as a separate line item in the “Other” category as required in Section 8.0(a) of [EPA’s Subaward Policy](#).

3. If applicants erroneously place funding estimates for subawards in the “Contractual” category, EPA will advise applicants to submit a revised budget. However, for state and tribal continuing environmental program grants covered by [40 CFR Part 35, Subparts A and B](#) “pen and ink” changes to recipient budgets may be acceptable under EPA policy.

a. Pass-through entities must provide a description of the types of activities to be supported with subawards in either the budget narrative or the scope of work to comply with the prior approval provision of [2 CFR 200.308\(c\)\(1\)\(vi\)](#).

b. EPA’s Subaward Policy does not require that applicants identify subrecipients or the amount of anticipated funding for specific subawards, although some applicants do so voluntarily, particularly for competitive proposals.

c. Under [2 CFR 200.308\(c\)\(1\)\(vi\)](#) recipients must obtain prior EPA approval for subawards that are not described in the scope of work for the agreement and

budgeted for in the aggregate line item in the recipient’s budget narrative. EPA’s [Subaward Policy Frequent Questions](#) contains additional guidance on when EPA approval is required for changes to a pass-through entity’s subaward plans.

4. The [National Subaward Term and Condition](#) requires applicants to work with the PO to obtain the written consent of EPA’s Office of International and Tribal Affairs, prior to awarding a subaward to a foreign government or international organization, or a subaward that will be performed in a foreign country. This requirement applies even if the applicant describes the subaward in a proposed scope of work.

5. As provided at [2 CFR 200.68](#), pass-through entities may only include up to the first \$25,000 of each subaward in the MTDC pool for the purposes of distributing indirect cost rates. Some state, tribal, or local government pass-through entities may distribute indirect costs to subawards differently if authorized by their cognizant Federal agency [under UGG Appendix VII, Section C. 3. e.](#)

IX. Indirect Costs

A. Definitions

1. As provided at [2 CFR 200.56](#), Indirect costs (IDC) are costs incurred by the recipient for a common or joint purpose that benefit more than one cost objective or project, and are not readily assignable to specific cost objectives or projects as a direct cost.
2. Modified Total Direct Costs (MTDC) is defined at [2 CFR 200.68](#).

B. EPA IDC Policies

1. EPA’s general IDC policy is posted at [Indirect Cost Policy for Recipients of EPA Assistance Agreements](#). Additional guidance documents are available in [Recipient/Applicant Information Notice 2018-G02, Indirect Cost Guidance for Recipients of EPA Assistance Agreements](#).
2. In order for the assistance agreement recipient to use EPA funding for indirect costs, the applicant’s approved budget derived from the budget table on the [SF-424A](#) must include an amount for IDCs and at least one of the following must apply:
 - a. With the exception of “exempt” agencies and IHEs as noted below, all applicants must have one of the following current (not expired) IDC rates, including IDC rates that have been extended by the cognizant agency:

(1) Provisional;

(2) Final;

- (3) Fixed rate with carry-forward;
- (4) Predetermined;
- (5) 10% *de minimis* rate authorized by [2 CFR 200.414\(f\)](#); or,
- (6) EPA-approved use of one of the following on an exception basis for EPA agreements:
 - 10% *de minimis* as detailed in section 6.3 of the IDC Policy; or
 - Expired fixed rate with carry-forward as detailed in section 6.4.a. of the [Indirect Cost Policy for Recipients of EPA Assistance Agreements](#).

Procedures for requesting exceptions from EPA are available in [Indirect Cost Guidance for Recipients of EPA Assistance Agreements](#).

b. “Exempt” state or local governmental departments or agencies are agencies that receive up to and including \$35,000,000 in Federal funding per the department or agency’s fiscal year, and must have an IDC rate proposal developed in accordance with [2 CFR 200 Appendix VII](#), with documentation maintained and available for audit.

c. IHEs must use the IDC rate in place at the time of award for the life of the assistance agreement (unless the rate was provisional at time of award, in which case the rate will change once it becomes final). As provided by [2 CFR Part 200, Appendix III\(C\)\(7\)](#), the term “life of the assistance agreement”, means each competitive segment of the project. Additional information is available in the regulation.

3. IDCs incurred during any period of the assistance agreement that are not covered by the provisions above are not allowable costs and must not be drawn down. Applicants may budget for IDCs pending approval of their IDC rate by the cognizant Federal agency or an exception granted by EPA under section 6.3 or 6.4 of [Indirect Cost Policy for Recipients of EPA Assistance Agreements](#). However, after EPA awards the assistance agreement recipients may not draw down IDCs until their rate is approved or EPA issues an exception.

C. Distribution of IDC Charges

1. Most non-profit applicants and IHEs distribute their indirect cost rates to MTDC as provided in [UGG Appendix III, Section C. 2.](#) and [Appendix IV, Section B. 2. c.](#) State, tribal and local government applicants including some interstate organizations do not necessarily use MTDC as the basis for distributing indirect costs. As provided in UGG

[Appendix VII. Section C.](#), the IDC rate agreement with the cognizant Federal agency may provide for other distribution bases for governmental applicants.

2. As provided at [2 CFR 200.68](#), the MTDC includes only the first \$25,000 of each subaward. Procurement contracts are not covered by this restriction. MTDC does not include participant support costs, tuition remission, scholarships and fellowships. Therefore, these costs must be excluded from MTDC when distributing indirect costs.

3. Examples of IDC Rate base distribution calculations are shown below:

a. Personnel Salaries (Indirect Rate x Personnel = IDC)

b. Personnel Salaries and Fringe (Indirect Rate x Personnel & Fringe = IDC)

c. Modified Total Direct Costs (Indirect Rate x MTDC = IDC)

4. Unless the applicant's rate agreement expressly authorizes distribution of indirect costs to total direct costs, this form of rate distribution is not allowable. Authorizations to distribute IDC to total direct charges are very rare.

Appendix 1 – Document Acronyms

A/E – Architecture/Engineering
CERCLA – Comprehensive Environmental Response Compensation and Liability Act
CEP – Continuing Environmental Program Grant
CFR – Code of Federal Regulations
DB – Davis Bacon
DBE – Disadvantaged Business Enterprise
EPA – Environmental Protection Agency
FAR – Federal Acquisition Regulations
FTE – Full Time Equivalent
GMO – Grant Management Officer
GS – Grant Specialist
GSA – General Services Administration
IDC – Indirect Costs
IHE – Institution of Higher Education
MTDC – Modified Total Direct Cost
OGD – Office of Grants and Debarment (EPA)
OPM – Office of Personnel Management
PI – Program Income
PO – Project Officer
SF – Standard Form
UGG – Uniform Grant Guidance (aka 2 CFR Part 200)

Appendix 2 – Sample Budget Detail/Narrative

Please note – Both federal and non-federal funds must be listed in the budget detail/narrative

Background. This fictitious sample budget detail/narrative is based on a hypothetical EPA assistance agreement supporting an Urban Waters project that involves water quality sampling, analysis of the results, and outreach to the community to encourage efforts to improve water quality. The agreement requires a recipient cost share of 10% of total project costs.

Notes:

- The applicant should identify its equipment cost threshold if it is lower than the \$5,000 level specified at [2 CFR 200.33](#).
- The sample calls for the applicant to attach its negotiated indirect cost rate agreement. If an applicant does not have an indirect cost rate it should attach an explanation of how indirect costs, if any, are determined in accordance with the budget guidance. For more information about indirect costs, refer to indirect cost policy, guidance, and training in [RAIN-2018-G02](#).

Budget Detail/Narrative Sample:

Personnel:

	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
Salaries and Wages			
(1) Project Manager @ \$47/hr x 323 hours	\$15,181		\$15,181
(1) Project Assistant @ \$24/hr x 200 hours		\$4,800	\$4,800
(1) Community Relations Coordinator @ \$23/hr x 150 hours	\$3,450		\$3,450
Total	\$18,631	\$ 4,800	\$23,431

Fringe Benefits:

Rate/Base/Composition	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
31% of Personnel costs (FICA, retirement, health, vacation, sick leave)	\$5,776	\$1,488	\$7,264

Travel:

<i>See Narrative Note 1.</i>	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
2 National Conferences including lodging, air, per-diem and registration fees for 2 employees. (See Narrative Note 2.)	\$4,492		\$4,492
Local travel for sampling and meetings. (P.O.V. @ \$0.58 per mile and actual cost for public transit)	\$150		\$150
Travel to one-week training course on innovative sampling techniques including lodging, train and per-diem for 1 employee. (See Narrative Note 3.)	\$2,500		\$2,500
Total	\$7,142		\$7,142

Equipment: (Equipment Capitalization Threshold = \$5,000)

Description	Purpose	Unit Cost	Quantity	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
Microwave Digester	Lab Analysis	\$17,500	1	\$17,500		\$17,500
12 Foot Motorized Skiff and trailer. (See Narrative Note 4.)	Sampling		1	\$6,000		\$6,000
Total				\$23,500		\$23,500

Supplies

Type	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
Computer Software	\$2,500		\$2,500
Office Supplies (pens, pencils, paper, chairs, etc.)	\$825		\$825
2 Lap Top Computers @ \$2000 each.	\$4,000		\$4,000
Total	\$7,325		\$7,325

Contractual

Contractual * (competitive process will be used to determine contractors when required by regulation)	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
Advertising for public meetings (Newspapers)	\$1,000		\$1,000
Environmental Sampling Firm to design sampling protocol and assist with data evaluation.	\$120,000	\$20,000	\$140,000
Community Meeting Facilitator - \$524/ day x 30 days (rate complies with limitation on individual consultant fees)	\$15,720		\$15,720
Total	\$136,720	\$20,000	\$156,720

Other

Type	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
Postage for Flyers for Community meetings.		\$611	\$611
Subaward to Friends of the Wolf River (<i>See Narrative Note 5</i>)	\$30,000		\$30,000
Travel to National Conference for 4 Community Members (<i>See Narrative Note 6</i>)	\$9,000	\$1,000	\$10,000
Printing Costs (Occasional use of large copiers at Office Depot).		\$1,200	\$1,200
Total	\$39,000	\$2,811	\$41,811

Indirect Costs:

Base (See Narrative Note 7)	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
26% of Personnel and Fringe Benefits and first \$25,000 of Subaward Costs	\$14,480		\$14,480

Total Budget Summary

	Requested from EPA	Cost Share provided by applicant (if applicable)	Total
Personnel	\$18,631	\$ 4,800	\$23,431
Fringe Benefits	\$5,776	\$1,488	\$7,264
Travel	\$7,142		\$7,142
Equipment	\$23,500		\$23,500
Supplies	\$7,325		\$7,325
Contractual	\$136,720	\$20,000	\$156,720
Other	\$39,000	\$2,811	\$41,811
Indirect Costs	\$14,480		\$14,480
Total	\$252,574	\$29,099	\$281,673

Recipient cost share calculation: $\$29,099 / \$281,673 = 10.33\%$

Narrative Note 1. There is no international travel for this project.

Narrative Note 2. The Project Manager and Community Relations Coordinator will make presentations on interim and final project results at the 2019 and 2020 National Urban Waters conferences. Travel reimbursement will be based on GSA per-diem rates.

Narrative Note 3. The Program Assistant will attend a one-week training on innovative sampling techniques at Tulane University.

Narrative Note 4. Our equipment threshold is \$5,000. We have determined based on the frequency and timing of the sampling activity that purchasing a small motorized skiff and a trailer is more cost effective than boat rentals. Additionally, some sampling will take place in remote areas in which boat rentals are not available.

Narrative Note 5. We will partner with Friends of the Wolf River to encourage community participation in the project. Friends is a 501(c)(3) nonprofit organization that promotes conservation of the Wolf River. Among other things, Friends will pay stipends and travel support to community members who attend focus groups and participate in training to prevent disposal of cooking grease in household drains. Friends of Wolf River understands that the stipends and participant travel are Participant Support costs that are excluded from its Modified Total Direct Cost base for distributing indirect costs.

Narrative Note 6. Four community members will attend the 2019 and 2020 National Urban Waters conferences (two at each conference) to participate in our presentations.

Narrative Note 7. We have attached our most recent negotiated indirect cost rate agreement.