



## Q+A FOR CONVERSATIONS WITH GRANTEES ABOUT ALLOCATED BUDGETS

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### **Why Does the Foundation Require Allocated Budgets for Projects that Include Lobbying?**

As a tax-exempt private foundation, the Foundation cannot spend its resources on activities that constitute "lobbying" under federal tax law. However, the law allows the Foundation to make grants to public charities for projects that will include lobbying if the Foundation first receives a budget for the project signed by an officer of the grantee that credibly divides the total project budget project into "lobbying" and "non-lobbying" components.

The Foundation's grant under these circumstances can be for no more than the non-lobbying part of the project budget. Hence, the Foundation requires grantees to submit a budget allocating estimated project expenses between lobbying and non-lobbying costs in order to prevent attribution of its grantees' lobbying to the Foundation.

For example, if a public charity submits a budget showing non-lobbying expenses of \$800,000, and lobbying expenses of \$200,000, the Foundation could make a grant for the project of up to \$800,000.

### **Can't my organization simply promise not to use the Foundation's funds for lobbying?**

Many private foundations explicitly prohibit the use of any grant funds for lobbying in their grant agreements. The Foundation does not do this for two reasons:

First, a contractual restriction prohibiting the use of grant funds for lobbying would require the Foundation's grantees to track and document the specific activities paid for with the Foundation funds to ensure that these activities are not lobbying. Although the Foundation grants are typically restricted to a specific project, the Foundation generally does not want to impose upon its grantees the additional administrative burden of segregating the Foundation funds for only certain activities within a funded project.

Second, grantees frequently find it advantageous to provide the same report to all the funders of a given project. These reports will typically describe all the project's activities, including those that constitute lobbying under the tax law. Such reports potentially create confusion if the terms of the grant agreement require the grantee to ensure that no grant funds were used for lobbying. By relying on a grant applicant's allocated budget (that is, a budget that "allocates" its anticipated expenditures to lobbying and non-lobbying activities) and not including a "no lobbying" restriction in our grant agreements, the Foundation limits the potential for inconsistencies between its grant agreements and the reports it receives from its grantees. This reduces the need for the Foundation to seek clarification from grantees about the nature of their advocacy activities.

## SAMPLE ALLOCATED BUDGET

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### Revenues

Foundation Grant	\$70,000
Other sources	60,000
<b>Total</b>	<b>\$130,000</b>

### Expenses

	Non-lobbying	Lobbying
Salaries	\$37,500	\$12,500
Benefits	3,750	1,250
Paid Media		
Consultants	7,500	2,500
Radio Spots	15,000	5,000
Print Advertisements	7,500	2,500
Earned Media		
Press Releases	5,000	
Printing		
Mailing		
Rally	10,000	
Permits		
Promotional Material		
Equipment		
Meetings with Legislators		5,000
Overhead	11,250	3,750
Rent/Utilities		
Telephones		
Office Equipment		
<b>Total</b>	<b>\$97,500</b>	<b>\$32,500</b>

**Total Project Costs** **\$130,000**

### Explanation

**Salary:** The project will have one full-time project coordinator (40 hours/week) who will be paid \$50,000 in salary and fringe benefits worth \$5,000. The project coordinator will spend approximately three days each week on the following non-lobbying activities: 1) researching press releases on related issues, and 2) organizing a public rally. The project coordinator will spend one day each week working with a paid media consultant to develop radio and newspaper advertisements on the issue. As described below, only 25 percent of the advertisements will be lobbying communications. One day per week will be devoted to organizing meetings between volunteer members of the public and legislators about issue-specific legislation. The project coordinator expects to spend 3.75 days each week, or 75 percent of her time, on non-lobbying activities. The remainder of her time will be spent on lobbying.

**Paid Media:** The project will produce four radio advertisements and four newspaper ads discussing legislation. Only one radio ad and one newspaper ad will include a call to action.

**Earned Media:** The activities covered by these expenses will not be lobbying because the press releases will not include a call to action and the rally will not involve discussions of specific legislation.

**Meetings with Legislators:** Since volunteers will meet with legislators to discuss one or more specific legislative proposals, the project is treating all costs of bringing the volunteers to the state capital for the meeting as lobbying expenditures.

**Overhead:** The project's direct expenses will be 25 percent for lobbying activities and 75 percent for non-lobbying. Accordingly, 25 percent of the project's overhead costs are also treated as lobbying.

**Comment:** Allocating overhead costs according to direct costs is only one, very simple, method of determining the proportion of such costs that are attributable to lobbying. Other methods may produce more accurate results in certain cases.

## ALLOCATED BUDGET – ALTERNATIVE

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As an alternative to a full allocated budget, the potential grantee can submit a line item budget reflecting the intended uses of grant funds. For example:

### Project Budget

#### Revenues

Foundation Grant	\$70,000
Other Sources	60,000
<b>Total</b>	<b>\$130,000</b>

#### Expenses

Salaries	50,000
Benefits	5,000
Paid Media	40,000
Earned Media	15,000
Travel	5,000
Overhead	15,000
<b>Total</b>	<b>\$130,000</b>

#### Estimated Expenses Related to Lobbying

Based on anticipated direct costs and estimated employee time to be spent on lobbying activities, 25 percent of the expenses will be related to lobbying activity.