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Fiscal Coaching Session 3:
Budgeting & Allocation Methods

July 8, 2026

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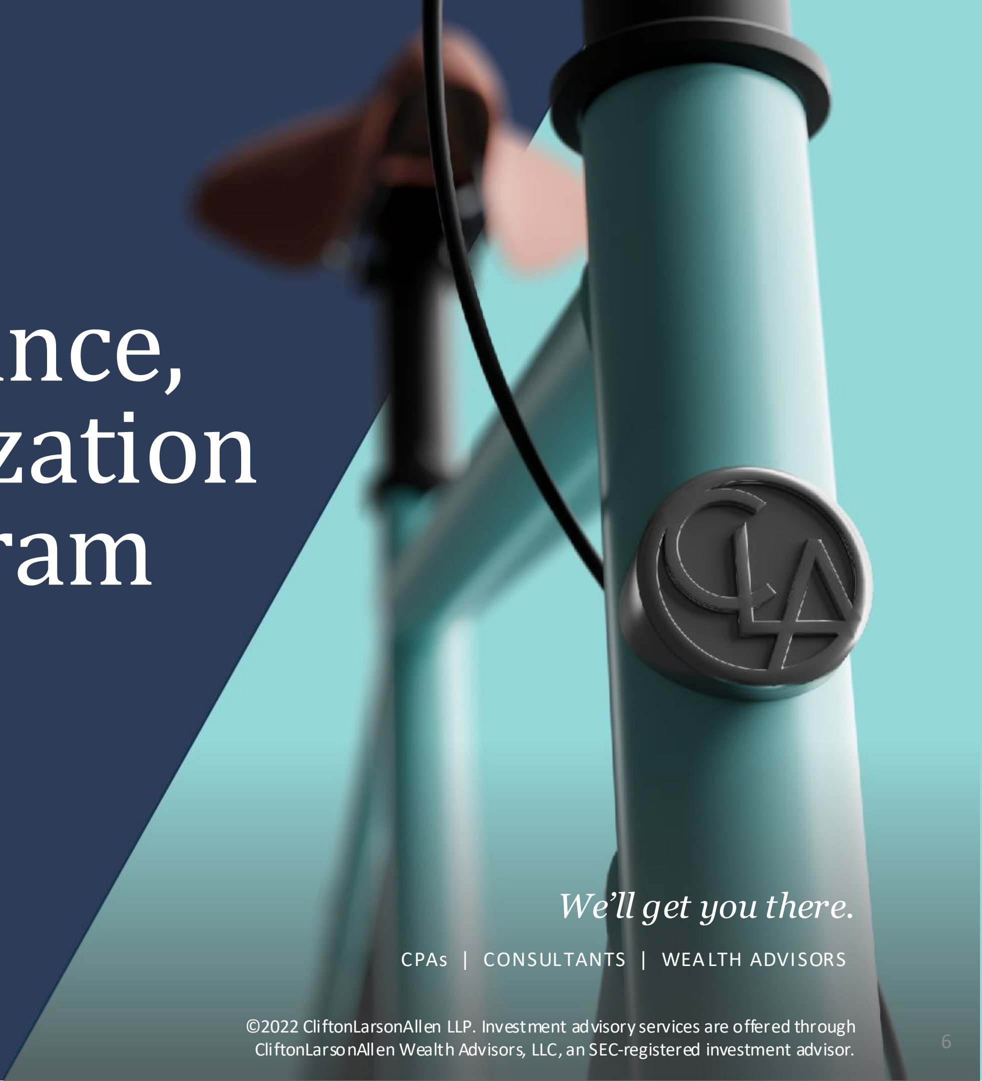
Agenda

- Creating compliant, realistic WAP budgets
- Admin, H&S, T&TA limits
- Linking production goals to funding
- Developing allocation formulas for subgrantees
- Adjusting allocations based on performance or funding changes

Creating Compliance, Realistic Weatherization Assistance Program Budgets



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Regulatory Framework

Compliant budgets are built on a foundation of overlapping federal and state authorities:.

10 CFR Part 440 – DOE Weatherization Assistance Program regulations (eligibility, allowable activities, ACPU, T&TA).

2 CFR Part 200 – OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements (Uniform Guidance).

2 CFR Part 910 – DOE Financial Assistance Rules for for-profit and other recipients.

Annual State Plan – DOE-approved master file describing production goals, budgets, ACPU, H&S plan, T&TA plan, and monitoring approach.

WPN (Weatherization Program Notices) – DOE guidance issued throughout the year (e.g., WPN on ACPU, BIL, H&S).

State and local procurement, prevailing wage (Davis-Bacon for BIL funds), and labor standards requirements.

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Core Budget Categories

DOE WAP budgets are organized into distinct, regulated categories:

Program Operations
Direct production: labor, materials, equipment, audits, incidental repairs.

Health & Safety (H&S)
Measures necessary to safely install weatherization (mold, ventilation, CO, etc.).

Training & Technical Assistance (T&TA)
Workforce training, certifications, monitoring, technical support.

Liability Insurance
Coverage for crews and homes serviced during weatherization.

Financial Audits
Single Audit and program-specific financial reviews.

Leveraging Activities
Activities to attract additional, non-DOE resources.

Administration
Agency-level G&A: financial mgmt, HR, governance (capped).

Other (Optional / State-Defined)
State-specific line items consistent with the approved State Plan.

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Optional Budget Flexibilities for the Average Cost Per Unit

To allow the most flexibility to calculate ACPU, DOE issued WPN 24-7 (revised effective date April 14, 2025_ which added the following optional Budget Categories for which costs are excluded from the ACPU :

- Intake/Eligibility
- Final Inspection
- Energy Audit

By exercising the option to budget and expense to these categories, Grantees have the flexibility to establish separate budgets that support the weatherization process, and these expenditures would no longer be included in the calculation of the ACPU.

Grantees electing to use these optional Budget Categories may budget for and charge to these categories: salary, fringe, and travel (mileage, lodging, and per diem), associated with the staff performing these duties.

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Average Cost Per Unit (ACPU)

ACPU is the statutory ceiling on the average DOE expenditure per weatherized dwelling unit.

ACPU is set annually by DOE (adjusted for inflation/CPI) and published in a Weatherization Program Notice.

Included in ACPU: program operations (labor, materials, equipment, energy audits, incidental repairs).

Excluded from ACPU: H&S, T&TA, financial audits, liability insurance, leveraging, administration.

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Average Cost Per Unit (ACPU) Example

Figure 1. Example of Average Cost per Unit table in QPR in PAGE

	Average Unit Costs, Units subject to DOE Project Rules (calculations for budget period)	
	VEHICLES & EQUIPMENT AVERAGE COST PER DWELLING UNIT (DOE RULES)	
A	Total Outlays, Vehicles & Equipment	$28,715.00
B	Total Units Weatherized	661
C	Total Units Reweatherized	5
D	Total Dwelling Units to be Weatherized and Reweatherized (B + C)	666
E	Average Vehicles & Equipment Acquisition Cost per Unit (A divided by D)	$43.12
	AVERAGE COST PER DWELLING UNIT (DOE RULES)	
F	Total Outlays, Program Operations	$5,404,012.18
G	Total Dwelling Units Weatherized and Reweatherized (from line D)	666
H	Average Program Operations Costs per Unit (F divided by G)	$8,114.13
I	Average Vehicles & Equipment Acquisition Cost per Unit (from line E)	$43.12
J	Total Average Cost per Dwelling (H plus I)	$8,157.25

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Average Cost Per Unit (ACPU)

Why realistic ACPU planning matters:

- Overestimating ACPU → fewer units produced than promised in the State Plan.
- Underestimating ACPU → unit deferrals, quality issues, or unallowable spending in other categories.

Tips for accurate unit-cost forecasting:

- Use a 3-year rolling average of actual per-unit costs, adjusted for current material and labor inflation.
- Segment by housing type (single-family, mobile, multifamily) for sharper estimates.
- Document assumptions—auditors and monitors will ask.

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Administrative Cost Limits

Statutory caps apply to administrative expenses at both the State and subgrantee levels.

- Under 10 CFR 440.18(e) for administrative purposes—no more than 7.5% of the new Program Year allocation may be used by the Grantee

Not less than 7.5% must be made available to Subgrantees.

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Administrative Cost Limits

Statutory caps apply to administrative expenses at both the State and subgrantee levels.

However, a state may provide up to an additional 5% to Subgrantees receiving grants of less than $350,000 of the new total PY allocation funds. In other words, a state may make available up to 12.5% to certain qualified Subgrantees.

Should the state elect this option, Grantees must describe the procedures used by the Grantee for approval to provide additional administrative funds to qualified Subgrantees as specified in 10 CFR 440.18(d).

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Administrative Cost Limits

What counts as ADMIN:

- Executive leadership, accounting, HR, board governance, general agency insurance.
- Audit/legal not tied to a specific program activity.

What counts as PROGRAM OPERATIONS (not admin):

- Crew supervision, intake/eligibility, energy auditors, QCI inspectors, production scheduling.
- Vehicles, tools, materials, jobsite communication.

Common misclassifications:

- Putting program management staff under Admin (often allocable to Program Ops).
- Charging shared costs without a documented cost allocation plan or indirect rate.

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Health & Safety Budget

H&S measures are required to safely deliver weatherization—budget them realistically.

- Allowable H&S activities typically include:
  - Combustion safety testing and venting corrections.
  - Mold/moisture remediation incidental to weatherization.
  - CO and smoke alarms; mechanical ventilation.
  - Minor electrical repairs required to install measures safely.
- Must align with DOE-approved Standard Work Specifications (SWS) and the State's H&S Plan.
- Documentation requirements:
  - Pre/post test results (blower door, CAZ, CO).
  - Photos, work orders, and inspector sign-off.
  - Justification when a unit is deferred for H&S reasons.

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Training & Technical Assistance (T&TA)

T&TA builds workforce capacity and supports quality—budget separately from program operations.

- Allowable T&TA activities:
  - Worker certifications and recertifications (BPI, QCI, Energy Auditor, Retrofit Installer, Crew Leader).
  - Conferences, workshops, and DOE-sponsored training events.
  - Monitoring and quality oversight (QCI inspections).
  - Curriculum development, instructor fees, training labs.
- Not allowable under T&TA:
  - Direct production labor or materials.
  - Travel unrelated to training or monitoring.
- Best practice: tie T&TA spending to a written workforce development plan and certification roadmap.

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Allowable vs. Unallowable Costs

✓ Allowable	✗ Unallowable
• Energy audits and assessments • Materials for DOE-approved measures (insulation, air sealing, HVAC tune-ups) • Labor for installation of eligible measures • Incidental repairs necessary to make measures effective • Health & safety measures within State Plan • QCI final inspections • Training and certifications (within T&TA) • Reasonable administrative costs within caps	• Entertainment, alcohol, gifts • Lobbying activities • Fines, penalties, and bad debts • Costs outside DOE-approved measures or SWS • Replacement of major systems unrelated to energy efficiency • Cosmetic or aesthetic improvements • Costs not adequately documented • Expenditures exceeding ACPU or admin caps

Building a Realistic Budget

1	**Start with prior-year actuals**	Pull 2–3 years of expenditures by category, unit, and housing type.
2	**Validate ACPU assumptions**	Apply current DOE ACPU and adjust for local material/labor inflation.
3	**Align production goals with capacity**	Match unit goals to crew size, contractor availability, and audit/QCI throughput.
4	**Build H&S from the housing stock**	Use deferral and H&S incidence rates to size the H&S budget.
5	**Include monitoring and QC costs**	Budget for state monitoring visits, QCI inspections, and corrective action.
6	**Reconcile to the State Plan**	Confirm budgets, caps, and narrative match the approved Master File.

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Common Budgeting Pitfalls

Avoid the issues most frequently cited in monitoring reviews and Single Audits.

- Unrealistic production goals that don't match workforce or contractor capacity.
- Underestimating Health & Safety needs given the age and condition of the housing stock.
- Ignoring inflation, supply-chain volatility, and rising labor costs in per-unit estimates.
- Weak or outdated indirect cost rate documentation (NICRA or de minimis 10%/15% rate not on file).
- Failing to budget for monitoring, QCI final inspections, and required training.
- Carryover miscalculations—budgeting carryover that has not yet been approved by DOE.
- Treating program management as administration (or vice versa) without a documented basis.
- No written cost allocation plan when multiple funding sources cover shared staff or facilities.
- Insufficient budget reserves for re-work, deferrals, and unexpected H&S conditions.

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Reporting & Documentation

A budget is only as compliant as the records that support it.

Reporting:

- Quarterly Performance Reports and Financial Reports.
- Annual close-out and carryover requests (subject to DOE approval).

Required documentation to retain:

- Client eligibility files, energy audits, work orders, and final inspection reports.
- Time and effort records (personnel activity reports per 2 CFR §200.430).
- Procurement files (selection, cost/price analysis, contract).
- Cost allocation plan or NICRA letter, board-approved budget, and budget amendments.

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Monitoring Expectations

Monitoring expectations:

- DOE Project Officer monitoring of the State; State monitoring of subgrantees (programmatic + fiscal).
- Single Audit under 2 CFR Part 200, Subpart F (audit threshold currently $1,000,000 in federal expenditures).
- Auditors test allowability, allocability, ACPU, admin caps, and reporting per 2 CFR §200.516.

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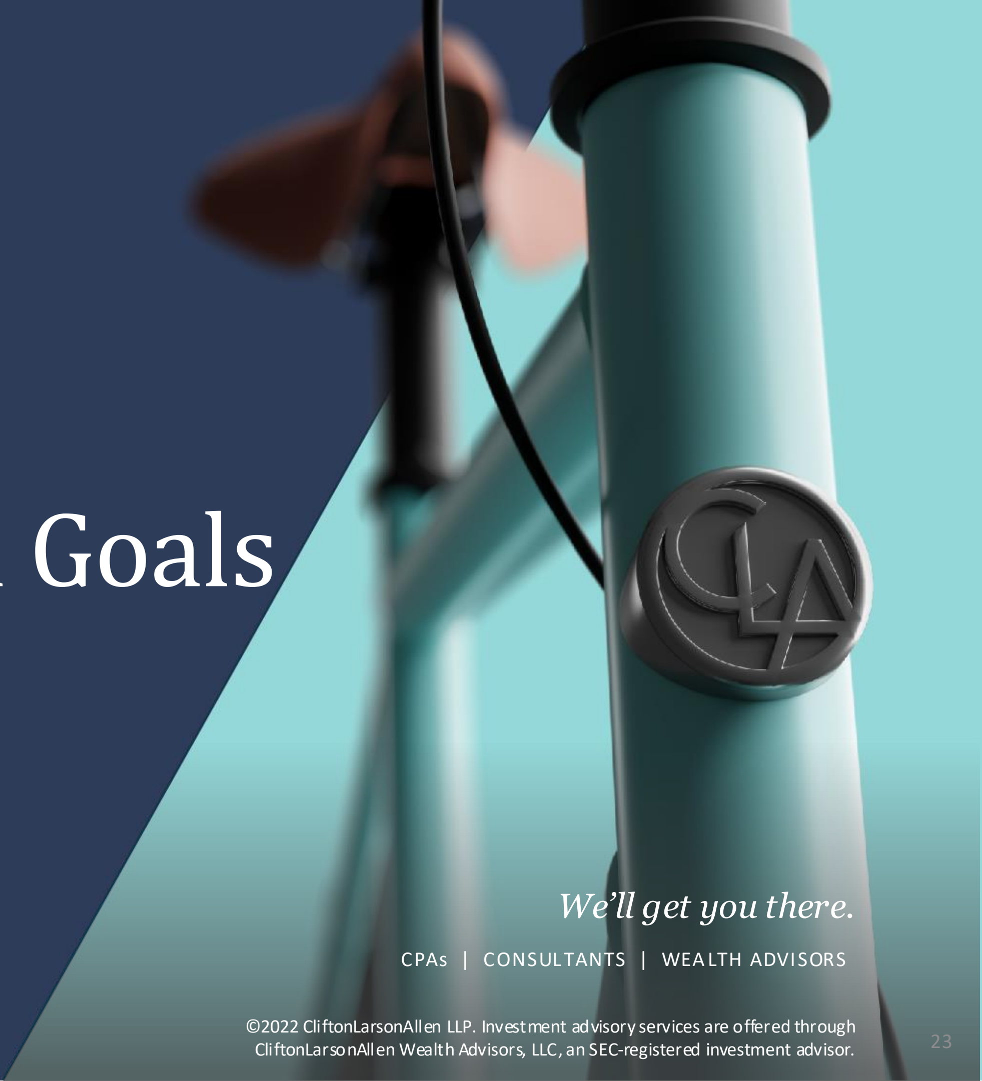
Linking Production Goals to Funding



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Why This Matters

- DOE expects realistic, defensible production projections in the State Plan.
- State Plan approval — and award timing — depends on credible math.
- Underproduction triggers monitoring findings and corrective actions.
- Overcommitment causes carryover, de-obligation, and reputational risk.
- Workforce, contractor, and material planning all key off the goal.
- Compliant budgets protect funding streams across multi-year award cycles.

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The Funding-to-Production Equation

The core math behind every WAP production plan:

Production Units = Program Operations Budget ÷ Average Cost Per Unit

Each variable explained:

- Program Operations Budget — funds remaining after admin, T&TA, H&S, audits, insurance, leveraging.
- Average Cost Per Unit (ACPU) — realistic per-unit cost, validated by recent actuals and DOE limits.
- Production Units — the goal you defend in the State Plan and report through PAGE.

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Step 1: Identify Available Funding

- Inventory ALL funding available for the program year before setting a goal.
- Include both DOE WAP funds and leveraged / supplemental sources.
- Flag use restrictions, period of performance, and any matching requirements.

Funding Source	Amount	Restrictions / Notes
DOE WAP formula allocation (current PY)	$1,400,000	10 CFR 440; State Plan ACPU & admin caps apply
Prior-year carryover	$220,000	Requires State approval; original PoP rules
BIL/IIJA WAP supplemental	$450,000	Extended PoP; ACPU may differ; expanded eligibility
LIHEAP WAP transfer / utility leveraging	$130,000	Non-DOE; track separately; no supplanting

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Step 2: Separate Production $ from Non-Production $

Back out the required non-production set-asides FIRST:

- Administrative costs — 5% subgrantee cap (plus an additional 5% in allowed cases).
- Training & Technical Assistance (T&TA) — up to 20% statutory limit.
- Health & Safety — per the approved State Plan H&S budget.
- Liability insurance for weatherized homes.
- Required financial audits.
- Leveraging activities (allowable percentage).

What's left = Program Operations $$ available for unit production.

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Step 3: Determine a Realistic ACPU

- Anchor on prior 2–3 years of ACTUAL completed-unit costs (don't guess).
- Adjust for current material and labor inflation, plus supply-chain trends.
- Reflect your housing-stock mix: single-family, multifamily, and mobile homes price differently.
- Include incidental repairs and a reasonable allowance for required measures.
- Stay within the DOE-published statutory ACPU cap and annual adjustments.
- Document the methodology — you'll need to defend it in monitoring and audits.

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Step 4: Calculate the Initial Production Goal

Plug your numbers into the equation:

Program Operations Budget		Planned ACPU		Initial Goal
$1,500,000	÷	**$7,500**	=	**200 units**

Use this as your starting point — not your final number.

- The initial goal is a math result — it must still be capacity-validated (Step 5).
- If your Program Ops $ or ACPU changes, recalculate and update your State Plan documentation.
- Recalculate any time you receive supplemental funds (BIL/IIJA, IRA, leveraging).

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Step 5: Validate Against Capacity

Reality-check the math: can you actually DO this many units?

- Crew & contractor capacity — units per crew per month, with realistic productivity.
- QCI (Quality Control Inspector) availability — required for every completed unit.
- Energy auditor capacity — homes must be audited before they can be weatherized.
- Materials & supply chain — lead times for insulation, HVAC, and air-sealing materials.
- Seasonal constraints — heating-season testing, daylight hours, weather windows.

If capacity < calculated goal → reduce the goal OR invest in T&TA / contractor expansion.

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Step 6: Allocate Across Housing Types & Geography

- Single-family vs. multifamily vs. mobile-home unit targets (each has a different ACPU).
- Urban vs. rural distribution — travel time and contractor availability differ.
- Priority populations — elderly, persons with disabilities, families with children, high energy burden.
- Sub-area / sub-grantee allocations — match each local agency's capacity and waiting list.
- Balance equity goals with production efficiency.
- Reflect these allocations in your State Plan narrative and tracking tools.

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Step 7: Document Your Assumptions

If it's not written down, it didn't happen. Capture in writing:

- ACPU methodology and inputs (data sources, time period, adjustment factors).
- Capacity analysis — crews, QCIs, auditors, contractor base, materials lead times.
- Funding source breakdown with restrictions and periods of performance.
- Carryover plan and reprogramming triggers.
- Risk factors (weather, supply chain, workforce) and mitigation strategies.

Documentation supports the State Plan AND your audit response under 2 CFR §200.516.

Worked Example: A Mid-Size Local Agency

End-to-end calculation, from total funding to a validated production goal.

Total funding available	$2,200,000
Less: Administration (5%)	($110,000)
Less: Training & Technical Assistance (10%)	($220,000)
Less: Health & Safety (15%)	($330,000)
Program Operations budget	**$1,540,000**
Planned ACPU	$7,700
Math-based production goal	**200 units**
Validated capacity (4 crews × 4 units/mo × 12 mo)	192 units
Final, defensible goal	**195 units**

What this shows

- Math says 200 — capacity says 192.
- Set the goal at 195 to balance ambition and realism.
- Build in a T&TA plan to expand capacity for next PY.
- Document every line — this is your audit trail.
- Update the State Plan if any input shifts > 10%.

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Monitoring Production vs. Plan

- Align internal tracking with PAGE reporting categories from day one.
- Track units completed vs. planned, with monthly and quarterly variance reporting.
- Compare spend rate to production rate — divergence is an early warning sign.
- Set thresholds: e.g., <70% production at mid-year triggers a reprogramming review.
- Know when a State Plan modification is required vs. internal reallocation.
- Share dashboards with leadership and the State office for transparency.

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Adjusting Mid-Year

Off-track? You have options — but document and seek approvals.

- Reprogram funds between budget categories (with State approval).
- Request carryover for unspent funds nearing period-of-performance end.
- Adjust ACPU to reflect actual market conditions; update the State Plan.
- Add capacity through T&TA, additional contractors, or shared services.
- Reallocate units / dollars among local agencies based on real-time performance.
- Communicate early — the State and DOE prefer proactive over reactive.

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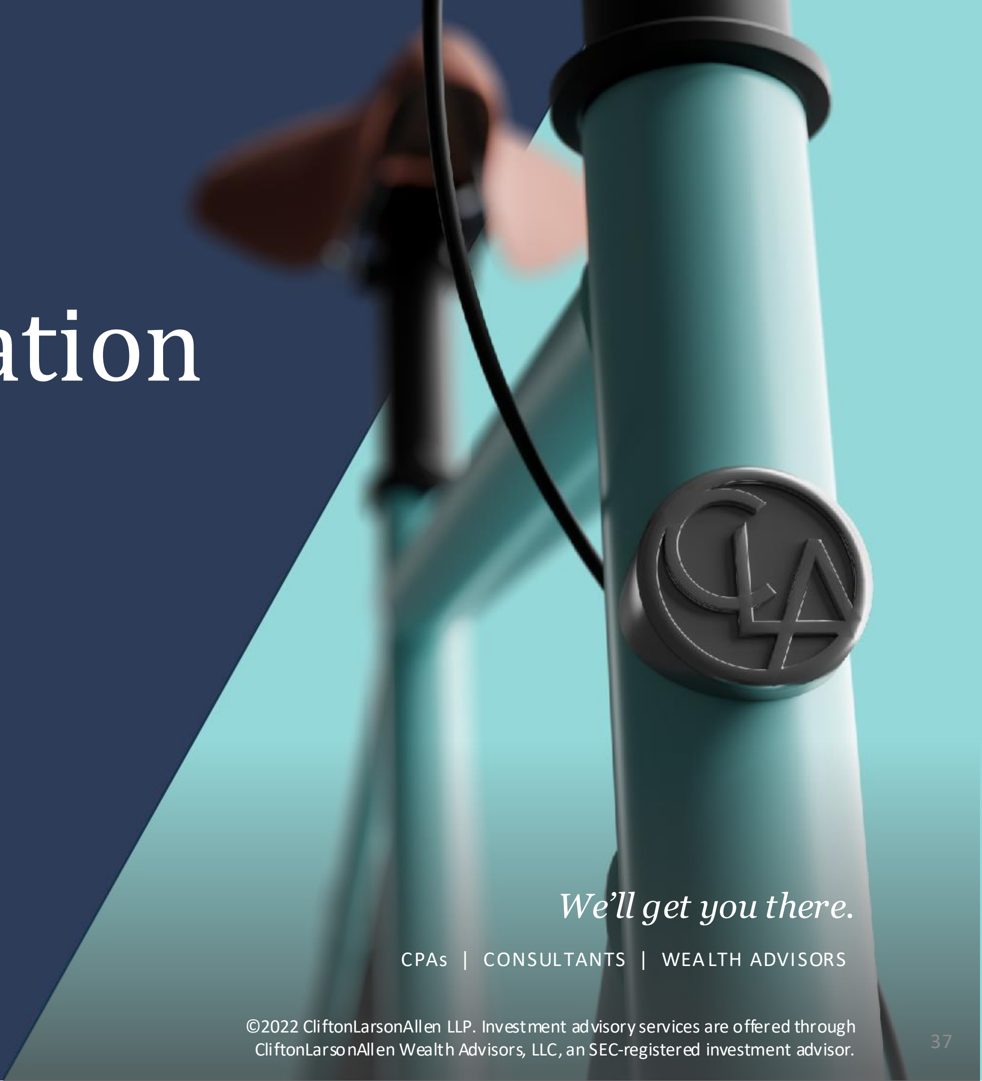
Common Mistakes to Avoid

- Setting goals based only on funding, with no capacity check.
- Ignoring carryover when calculating new-year goals.
- Using outdated or industry-average ACPU instead of YOUR actuals.
- Failing to document assumptions — leaving auditors guessing.
- Treating Health & Safety or incidental-repair caps as production funding.
- Confusing units COMPLETED with units REPORTED in PAGE.
- Skipping mid-year reviews until it's too late to course-correct.

Developing Allocation Formulas for Subgrantees



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Why a Formula-Based Approach?

- Transparency and equity across service territories
- Objectivity — reduces political influence in funding decisions
- Defensibility during DOE monitoring and single audits
- Consistency year over year, with room for periodic adjustment
- Alignment with statutory intent to serve households most in need

Common Formula Factors

- Low-income eligible population (households at or below state income threshold)
- Climate severity — Heating Degree Days (HDD) and Cooling Degree Days (CDD)
- Housing stock characteristics — pre-1980 units, substandard housing
- Energy burden — percent of household income spent on home energy
- Historical production performance — prior year units completed
- Rural vs. urban equity and tribal set-asides

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Weighting the Factors

- Weights should reflect state priorities and statutory intent
- All factor weights must sum to 100%
- Example weighting scheme:
  - Low-income households — 40%
  - Climate / HDD — 20%
  - Pre-1980 housing units — 20%
  - Prior year production — 20%
- Revisit weights every 3–5 years or with major funding changes

Building the Formula — Step by Step

- Step 1: Identify data sources (Census ACS, DOE, state agency, LIHEAP)
- Step 2: Calculate each subgrantee's share of each factor
- Step 3: Apply weights to produce a composite share percentage
- Step 4: Multiply composite % by total available funding
- Step 5: Apply minimum base allocation (floor) where appropriate
- Step 6: Normalize final allocations to equal total available funds

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Sample Formula in Action

Total Available Funding: $10,000,000

Subgrantee	Composite Share	Allocation
Region 1 CAA	15.18%	$1,518,319
Region 3 CAA	18.95%	$1,895,207
Region 7 CAA	17.20%	$1,720,073
Other regions (combined)	48.67%	$4,866,401

Special Considerations

- Minimum base / floor allocations to preserve small subgrantee capacity
- Tribal set-asides for federally recognized tribes
- Rural equity adjustments to reach dispersed populations
- Leveraged funding coordination — LIHEAP, utility programs, BIL/IIJA
- Administrative cost cap awareness — 15% grantee / 5% subgrantee

Documentation & Approval

- Written methodology included in the State Plan
- Public notice and hearing (required by 10 CFR 440.14)
- Board or commission approval as required by state policy
- Subgrantee notification and formal acknowledgment
- Retain data sources, calculations, and rationale for audit purposes

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Common Mistakes to Avoid

- Weights that don't total 100% or shift year-to-year without documented rationale
- Using outdated data sources (e.g., pre-2020 Census) — refresh data annually
- Ignoring subgrantee capacity — allocating more than a subgrantee can realistically produce
- Skipping public participation or omitting methodology from the State Plan
- Over-reliance on historical production — can penalize new/growing subgrantees
- Failing to build adjustment mechanisms for shortfalls or supplemental funding (e.g., BIL/IIJA)
- Inconsistent treatment of tribal set-asides, rural equity, or minimum floor allocations
- Poor documentation — no retained data, calculations, or approval records for audit

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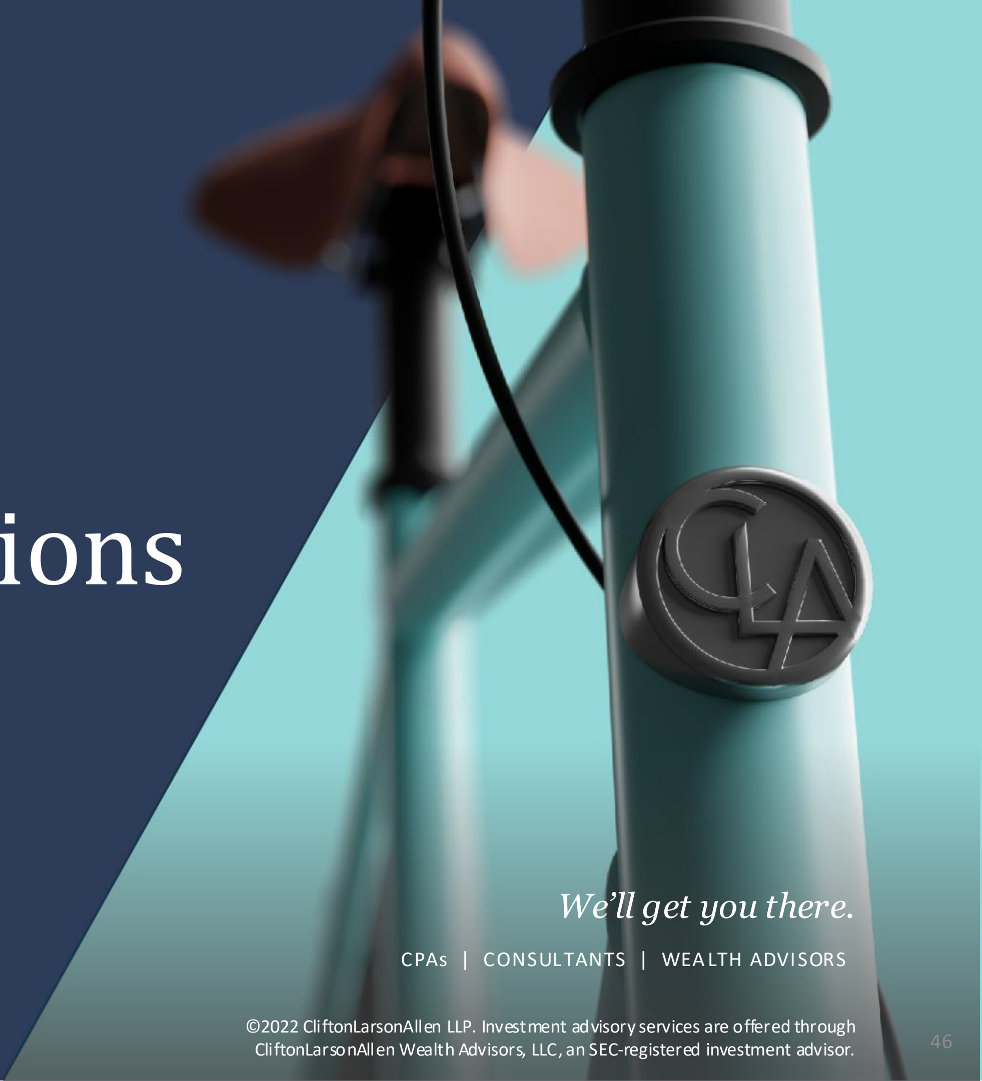
Adjusting Allocations



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Adjusting Allocations: Why & When

- Allocations are not 'set and forget' — conditions change during the program year
- Federal expectation: grantees actively manage subawards under 2 CFR 200.332 (subrecipient monitoring)
- Adjustments protect production goals, expenditure of federal funds, and program integrity
- Common drivers: performance shortfalls, funding changes, capacity issues, emergencies
- Build flexibility into the State Plan and subgrantee contracts from the outset
- Communicate the possibility of adjustments upfront so they aren't a surprise

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Performance-Based Triggers

- Production shortfalls — units completed vs. contracted goal (e.g., below 40% at mid-year)
- Expenditure rate — spending significantly behind or ahead of straight-line pace
- Quality issues — QCI inspection failures, callback rates, re-work findings
- Monitoring findings — repeat findings, unresolved corrective action plans
- Compliance concerns — Single Audit findings, procurement or eligibility issues
- Capacity constraints — staff turnover, crew loss, subcontractor unavailability
- Set clear, written thresholds in advance (e.g., '<50% production by month 6 triggers review')

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Funding-Change Triggers

- Supplemental federal awards (e.g., BIL/IIJA, ARPA-style appropriations)
- Rescissions or reductions in the DOE annual allocation
- Carryover funds from the prior program year
- Leveraged funding shifts — LIHEAP, utility, state general fund changes
- Reprogramming across cost categories (Program Ops, H&S, T&TA, Admin)
- Emergency or disaster-related supplemental funding
- Each funding change should be evaluated against the original formula before reallocation

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Reallocation Process & Documentation

- Step 1: Data review — YTD production, expenditures, monitoring results, subgrantee input
- Step 2: Formal notice to affected subgrantees with rationale and opportunity to respond
- Step 3: Written determination by grantee (or board) with amount and effective date
- Step 4: Contract / subaward amendment executed and signed
- Step 5: Update State Plan / budget as required; notify DOE Project Officer
- Step 6: Retain complete documentation — data, calculations, correspondence, approvals
- Best practice: schedule mid-year (month 6) and Q3 (month 9) formal review checkpoints

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Adjusting Allocations Key Takaways

- Triggers: performance shortfalls, quality findings, funding changes, supplemental awards
- Mid-year review: YTD production vs. goal, expenditure rate, monitoring results
- Reallocation process: notify subgrantees, amend contracts, document rationale
- Clear, timely communication with subgrantees is critical
- Maintain formula transparency and consistency even during adjustments

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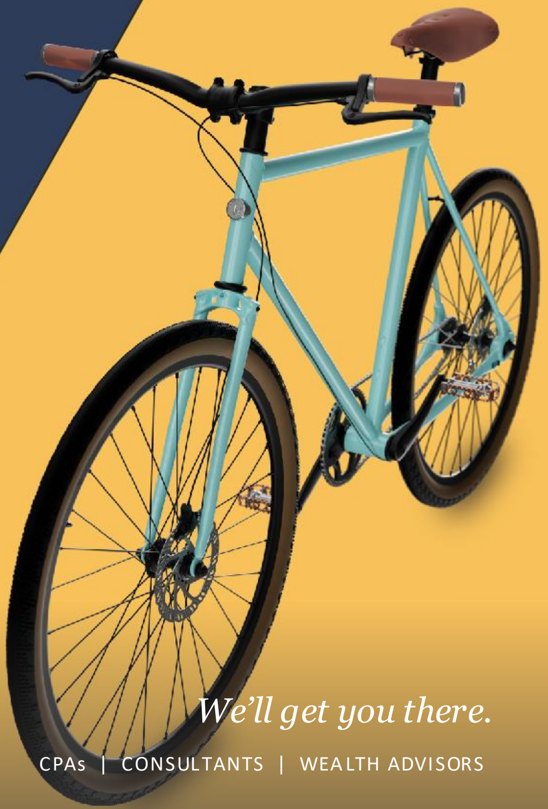
Questions?



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