OVERHEAD RATES, FAR REGULATIONS, AND PRICING TECHNIQUES

Engineering Industry Roundtable
AGENDA

- Current State of the Industry
- Overhead Management and Best Practices
- Expect More for Less
- Staff Chargeability and Utilization
- State Regulation Updates
- BREAK OUT SESSION - Intercompany Charges

Visit us on the web: www.fdcpa.com
Or Call: 888-875-9770
CURRENT STATE OF THE INDUSTRY

Massachusetts:
- 31 shovel-ready projects have moved forward under the ARRA representing an investment of $187.4M
- $153.2M committed to “shovel-ready” projects
- Massachusetts has received authority from the federal government to spend a total of $437.9M on transportation projects under the ARRA
- An additional $319M will fund urban and regional transit projects
- $60M proposed for Green Infrastructure Projects

http://www.eot.state.ma.us/recovery/project_list.pdf
CURRENT STATE OF THE INDUSTRY

- Job Growth Rate: 9.8%
- Current jobs: 6,310
- New Jobs: 620
- Where engineering jobs are Currently found:
  - Architectural, Engineering, & Related Services: 42%
  - Government: 24%
  - Construction: 13%
  - Self-employed: 5%

- www.mass.gov
CURRENT STATE OF THE INDUSTRY

- **New Hampshire:**
  - $36M approved in transportation contracts including $25.9M for the widening of I93
  - Major contracts for road repair and construction
  - Loans to upgrade critical wastewater systems
  - $4.9M contract for the ongoing Manchester Airport Access construction project
  - $4.8M for road and bridge reconstruction in Portsmouth

- [www.nh.gov/recovery](http://www.nh.gov/recovery)
- [http://www.nh.gov/recovery/contracts/index.htm](http://www.nh.gov/recovery/contracts/index.htm)
CURRENT STATE OF THE INDUSTRY

Connecticut:

- $1.12 Billion in stimulus funds have already been committed to efforts
- Highways and Bridges $302,053,956
- Transit $119,867,641
- Rail Modernization $32,030,000
- Safe Drinking Water $19,500,000
- Clean Water $48,500,000

CURRENT STATE OF THE INDUSTRY

Rhode Island

- Highway Planning and Construction - $137,095,725
- Section 8 Housing Assistance Payments Program Special Allocations $36,561,674
- School Improvement Grants $10,595,696
- Water Quality Management Planning $265,800
- Total $1,015,259,524

Upcoming Opportunities:
- High-speed Intercity Passenger Rail Program - $8B
- Highway Infrastructure - over $26B
- Tiger Discretionary Grants - $200M
- Transit Formula Funding – over $6B

http://www.recovery.ri.gov/progopp/programOpp.php
CURRENT STATE OF THE INDUSTRY

- **Florida:**
  - **Airports**
    - 16 Projects totaling $62.1M have been approved for airport improvements as of 4/20/2009
  
  - **Highway and Bridge**
    - 521 projects totaling $1.347B
      - 45 totaling $902M are statewide flexible projects
      - 395 totaling $404M are local projects
      - 81 totaling $40M are transportation enhancement

  - **Transit**
    - 170 projects totaling $316M

- **http://www.dot.state.fl.us/publicinformationoffice/construc/constmap/constmap.shtm**
OVERHEAD MANAGEMENT AND BEST PRACTICES

- **Overhead Management**
  
  - Remember, costs must be reasonable and allocable
  
  - The Federal Acquisition Regulations (FARs) disallow certain costs:
    - Advertising
    - Bad debts
    - Contributions
    - Alcohol
OVERHEAD MANAGEMENT AND BEST PRACTICES - CONTINUED

* Overhead Management-

- **Expect more for less:**
  - What products and services you buy (from sub-consultants to office supplies)
  - Who you buy them from
  - How and when you last competitively bid out for these products and services
  - Don’t let contracts automatically renew without a full review
  - Don’t accept price increases without an explanation
  - Ask yourself, are there alternatives to what we are doing today?
OVERHEAD MANAGEMENT
AND BEST PRACTICES - CONTINUED

- Overhead Management -

- 8 Ways to Save Money Re: IT

1. Software Upgrades & Replacement
2. Replace More Expensive Software
3. Licensing & Support – More licenses than needed, multiple support agreements
4. Stretch hardware lifecycle from 3 to 4 years
5. Culture Change – Consider replacing some IT staff with scheduled outsourcing
6. People are Expensive – Custom Programming, Proprietary Software
7. Re-Negotiate Contracts – Your organization not only one feeling the pitch
8. Fixed Price Vs. T&M
OVERHEAD MANAGEMENT AND BEST PRACTICES - CONTINUED

- Overhead Management-

  - Health Insurance
    - Average 25% of total compensation costs
    - Cost Reduction Strategies
      - Redesign current plans
        - Increase deductibles and doctor visit co-payments
        - Increase prescription drug co-payments
        - Consider premium cost sharing with employees
        - Change benefit vendors
        - Ensure former ee’s are not being paid for
        - Ensure COBRA is being collected
        - Ensure proper withholding of employees cost sharing are being deducted
        - Make sure you have SS125 plan/ plan in place
OVERHEAD MANAGEMENT AND BEST PRACTICES - CONTINUED

- Overhead Management -

  Retirement Plans
  - Analyze current costs
  - Review different plan options
  - Discuss possible changes with your investment advisor or third party administrator
  - Develop communication plan to employees
OVERHEAD MANAGEMENT
AND BEST PRACTICES - CONTINUED

- Overhead Management -
  - Other Areas
    - Professional fees
    - Rent (may be able to renegotiate better rates or incentives)
    - Training (don’t forget about MA training grants)
    - Dues / subscriptions / publications
    - Employee moral / meals
OVERHEAD MANAGEMENT
AND BEST PRACTICES - CONTINUED
Opportunities for New and Existing Projects

- Overhead Management-
  - Apply for Written Permission to Exceed
    - Overhead CAPS / Hourly rate limitations
      - Build your case (i.e. rent)
      - Increased rates are allowed (specialized services /expertise / client’s request)
      - Use of contract labor
  - Written Permission should be requested in the Proposal Stage of Your Project
  - Bill Supplemental and Reimbursable (I.e., CADD, Telephone, Travel, Faxes, Copies etc.) as another Direct Cost
  - Many states have specific caps & limitations

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OVERHEAD MANAGEMENT
AND BEST PRACTICES - CONTINUED

Best Practices -
- Invest money to make money
- Close the books within 3-5 days
- Monitor monthly performance
- Utilize billing and closing calendars
- Utilize technology and have integrated operating systems (marketing, project management and accounting)
OVERHEAD MANAGEMENT AND BEST PRACTICES - CONTINUED

- Best Practices -
  - Concentrate on principal chargeability
  - Monitor overall chargeability
    - Publish time analysis reports
  - Monitor the company’s Effective Labor Multiplier (ELM)
OVERHEAD MANAGEMENT AND BEST PRACTICES - CONTINUED

- **Best Practices** -
  - Bill 100% of time
  - Put more time / energy into collecting accounts receivable
  - Monitor overhead costs

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OVERHEAD MANAGEMENT AND BEST PRACTICES - CONTINUED

- **Best Practices**-
  - Invention is the mother of necessity
  - Embrace change to the organization
  - Stay positive
  - Accountability is needed more then ever!
MANAGING, MAINTAINING & IMPROVING STAFF PRODUCTIVITY

- Utilization – measures the direct labor to total labor. This can have a direct contribution to the billings and firm's profits.

- Have daily time reporting (electronic & automated)

- Should be tracked per employee, by level and for each discipline.

- What this can highlight?
  - Not enough work in the pipeline
  - Overstaffing
  - Seasonality in the business
  - Lack of ability to schedule / plan.
MANAGING, MAINTAINING & IMPROVING STAFF PRODUCTIVITY - CONTINUED

How to improve utilization?

- Believe it

- Fill the pipeline and keep it full
  - Everyone needs to play a role in marketing

- Attack seasonality

- Establish companywide and individual goals
MANAGING, MAINTAINING & IMPROVING STAFF PRODUCTIVITY - CONTINUED

**Personnel**

- Establish organizational staffing plan
  - Immediate needs
  - 1 year plan
  - 5 year plan

- Upgrade Personnel
  - Get all non-performers or bad attitudes off the bus regardless of their experience or years employed by you

- Identify and focus on “A” Players

- Look for lateral talent

- Determine mission critical positions

- Assess current staff qualifications/ performance levels
  - Develop/revise job descriptions
  - Feedback from trusted advisors
MANAGING, MAINTAINING & IMPROVING STAFF PRODUCTIVITY - CONTINUED

Chargeability/Utilization Rate
- Measures the percentage of direct labor in dollars per hour (i.e. staff time) that is charged to projects to total hours

<table>
<thead>
<tr>
<th>Staff Size</th>
<th>PSMJ</th>
<th>ZW</th>
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<tbody>
<tr>
<td>50-99</td>
<td>65.5%</td>
<td>67.3%</td>
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<tr>
<td>100-249</td>
<td>62.3%</td>
<td>67.7%</td>
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<tr>
<td>250-499</td>
<td>66.2%</td>
<td>63.5%</td>
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<tr>
<td>500+</td>
<td>60.3%</td>
<td>62.7%</td>
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### ABC Engineering Company, Inc.
#### Utilization / Chargeability

<table>
<thead>
<tr>
<th></th>
<th>Actual @ 50%</th>
<th>Planned @ 60%</th>
<th>Increased /Billings</th>
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<tbody>
<tr>
<td>Total Charge Hours</td>
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<tr>
<td>Average Bill Rate</td>
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<td></td>
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<tr>
<td>Total Capacity (Hours)</td>
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<tr>
<td>Divided by Chargeability</td>
<td>50%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Total Charge Hours</td>
<td>250,000</td>
<td>300,000</td>
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#### Chargeability

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<thead>
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STATE AND FEDERAL UPDATES

Federal
- Major overhaul of AASHTO Guidelines
  - Specific changes to compensation
  - Voting this week
  - See link at www.transportation.org
- Many of the New England states involved in this process
- Apply consistency to the overhead guidelines
- Use of cognizant agents
  - “Home” state issues cognizant letter
  - Letter is accepted by “outside” states as long as issued in accordance with properly reviewed rates
  - Not all states (many do not) follow this process
  - The New England states (and Florida) are very supportive of this concept
STATE AND FEDERAL UPDATES

- Massachusetts
  - Major overhaul of the Transportation system
    - Highway, Turnpike and MBTA will be under a DOT
    - Effective date = 11/1/2009
    - 4,000 total employees
    - Very likely the MHD audit operations will oversee the DOT
  - Mass Port and MWRA will not fall under the new DOT
STATE AND FEDERAL UPDATES

- Massachusetts Highway Department
  - Rate = 155% for state awards
  - Strict enforcement of the prequalification guidelines
    - Submitted on a timely basis (150 days or 5 months after year-end)
    - Need all required records and disclosures (see handout)
    - Untimely or incomplete submissions will result in removal from the prequalification list for the year in which the required documents are not submitted
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STATE AND FEDERAL UPDATES

Massachusetts Highway Department - continued

- Use $145,000 as “starting point” for salary review
- Performance surveys are used to determine reasonableness of salary. (In general, the survey is used ONLY for salary not other costs.)
Mass Port

- Limit the ELM to 2.5 (Overhead Rate 127%)
- Rates over 2.5 (or 127%) subject to field review
- Indirect salaries, fringe and other limited to Zweig White industry standards
  - Rent (20%)
  - Legal (5%)
  - B&P (8%)
  - Travel & Entertainment (8%)

Mass Port additional documentation
- Financial statements
- Reconciliation of payroll to overhead schedule
- Staff size
- Legal and insurance fees
STATE REGULATION UPDATES

- Connecticut Dept of Transportation (DOT) Guidelines
  - Internal Controls/System Design/Fraud
  - Consistency
  - Areas of Focus:
    - Principle compensation
      - State funded – no change, limit of $35 per hour
      - Federally funded – reasonableness test using PSMJ as a guide
    - Uncompensated overtime for salaried employees
    - Employees bonuses not > 15% of salary
    - Related party rent, employee morale, holiday parties, etc.